

2004/05

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**Child Development**  
**Attendance and Fiscal Reporting**  
**and**  
**Reimbursement Procedures**

\*

Child Development Fiscal Services  
FISCAL & ADMINISTRATIVE SERVICES DIVISION

CALIFORNIA DEPARTMENT OF EDUCATION

**2004/05**

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FISCAL & ADMINISTRATIVE SERVICES DIVISION

CALIFORNIA DEPARTMENT OF EDUCATION

This handbook was compiled and edited by Steev Schmidt, Associate Governmental Program Analyst, and produced by the Child Development Fiscal Services (CDFS) unit of the Fiscal & Administrative Services Division (FASD), California Department of Education. It is available on the FASD/CDFS website at: [www.cde.ca.gov/fg/aa/cd](http://www.cde.ca.gov/fg/aa/cd). Any questions regarding the content of this handbook should be directed to Jim Stefani, Manager, CDFS, Fiscal & Administrative Services Division at (916) 324-4552.

2004

#### NOTICE

The guidance in this "Child Development Attendance and Fiscal Reporting and Reimbursement Procedures" is not binding on local education agencies. Except for the statutes, Regulations, and court decisions that are referenced herein, this "Child Development Attendance and Fiscal Reporting and Reimbursement Procedures" is exemplary, and compliance with it is not mandatory. (See Education Code section 33308.5)

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## IMPORTANT CHANGES

As always, Child Development Fiscal Services (CDFS) recommends that your staff reviews all required procedures by reading all appropriate passages in this handbook; however,

**PLEASE NOTE** the following changes in this 2004/05 edition of the CDFS "Greenbook":

### Page   Subject

- |    |  |
|----|--|
| 3  | CONTACT INFORMATION<br><b>NOTE</b> our <b>new address</b> .  |
| 4  | REFERENCE<br><b>NOTE</b> that the CDE website has changed, and there are now <b>new website</b> addresses for various reference materials.   |
| 14 | REPORTING DEADLINES: Internet Reporting for AP Contracts   |
| 59 | CalWORKs REPORTING: Internet Submission<br><b>NOTE</b> the <b>new website</b> address for Alternative Payment reporting via the Internet.  |
| 49 | LIMITS OF REIMBURSEMENT:<br>ALTERNATIVE PAYMENT AND FAMILY CHILD CARE HOMES<br><b>NOTE</b> that now <b>all AP programs</b> (including CalWORKs) are subject to an 81%/19% reimbursement formula. |
| 69 | GLOSSARY<br><b>New Page:</b> this glossary was previously part of the Introduction, and has been moved here due to space considerations.   |

**Please DISCARD earlier editions** of this handbook; refer only to this latest edition.

# INTRODUCTION

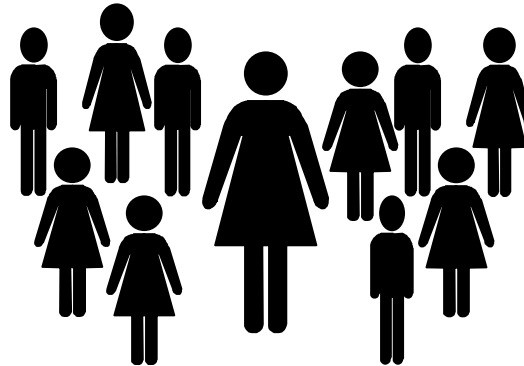
The purpose of this handbook is to aid Child Development contractors in their Attendance and Fiscal reporting, and explain reimbursement procedures and the role of the Fiscal & Administrative Services Division (FASD) and its Child Development Fiscal Services (CDFS) unit. Detailed contract information can be found in the *Funding Terms & Conditions* (FT&C), *California Code of Regulations, Title 5* and the *California Education Code*, which are part of each Child Development contract. **Contractors should especially read their FT&C.**

Most State contracts are standard reimbursement contracts: the contractor spends his own money and afterwards submits a claim for reimbursement. Child Development contracts are unique because reimbursement is advanced to the contractor in monthly apportionment amounts, which are determined by CDFS based on projected earnings calculated from the contractor's Attendance and Fiscal Report data. Final reimbursement is determined by an audit for private contractors and by the final Attendance and Fiscal Report for local education agencies. Advancing funds is a convenience to the contractor and is permitted to ensure continuity of services to children; however, **contractors should have sufficient operating capital in the event that State funds are delayed or withheld.**

Most of the following pages assume a center-based program with a minimum service requirement; contractors without a service requirement (AP and R&R contracts) may find some passages inapplicable. If you have any questions please contact your assigned CDFS Fiscal Analyst.

**CalWORKs NOTE:** CalWORKs are AP programs that have striking differences in requirements and procedures from other AP programs, and some of these unique aspects are covered in the "CalWORKs" pages. CalWORKs contractors should pay special attention to these differences, especially in the areas of reporting, MRA adjustments and reimbursement.

# WHO TO CONTACT FOR WHAT????



## CHILD CARE CONTRACTOR

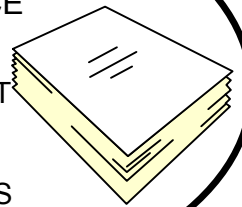
**CHILD DEVELOPMENT DIVISION  
(CDD) (916) 322-6233**

CONTRACT APPLICATIONS  
PROGRAM ASSISTANCE  
PROGRAM QUALITY REVIEWS  
DATA COLLECTION  
APPEALS



**CONTRACTS OFFICE  
(916) 322-3050**

CONTRACT CONTENT  
CONTRACT STATUS  
SIGNED CONTRACTS  
MISSING CONTRACTS



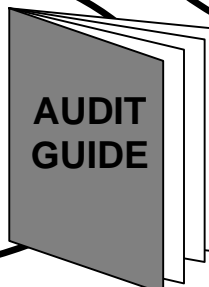
### **CHILD DEVELOPMENT FISCAL SERVICES (CDFS)**

CONTRACT TERMS--MRA, MDO, CDE, RATE  
ATTENDANCE AND FISCAL REPORTS  
REIMBURSEMENT CALCULATIONS  
RESERVE ACCOUNT STATUS  
PAYMENT AUTHORIZATION  
CONTRACT BILLINGS  
MISSING CHECKS  
DELINQUENT ACCOUNTS RECEIVABLE  
TECHNICAL ASSISTANCE



**AUDITS AND  
INVESTIGATIONS  
DIVISION (AID) (916) 322-2288**

AUDIT REQUIREMENTS  
AUDIT REVIEWS  
DELINQUENT AUDITS



## CONTACT INFORMATION

### FISCAL & ADMINISTRATIVE SERVICES DIVISION CHILD DEVELOPMENT FISCAL SERVICES

The Child Development Fiscal Services unit of FASD assigns fiscal analysts by county. An analyst directory may be found on the website at [www.cde.ca.gov/fg/aa/cd](http://www.cde.ca.gov/fg/aa/cd). Please use the following space to record the name and telephone number of the analyst for your agency:

COUNTY \_\_\_\_\_

CDFS ANALYST \_\_\_\_\_

PHONE NO. (916) \_\_\_\_\_

#### MAILING ADDRESS

The CDFS official mailing address is:

**CHILD DEVELOPMENT FISCAL SERVICES**  
FISCAL & ADMINISTRATIVE SERVICES DIVISION  
CALIFORNIA DEPARTMENT of EDUCATION  
1430 N STREET, ROOM 2213  
SACRAMENTO, CA 95814-5901

Please use this address for all correspondence. The Division name is optional, but you should always specify "Child Development Fiscal Services" or "CDFS" to avoid any confusion regarding which FASD unit should receive the material.

#### IMPORTANT DEADLINE REMINDER

Please DO NOT send CDFS correspondence, ***especially items with a deadline*** such as Attendance & Fiscal Reports, to any other CDE address (such as to the Child Development Division, also located at 1430 N Street). Since many CDE forms and letters appear similar, mail received by the wrong Division or unit could be delayed. Reports received by another unit within CDE do NOT qualify as meeting the reporting requirements; reports must be received in CDFS by the deadline or they will be considered delinquent.



# REFERENCE MATERIALS

The statutes and regulations embodied in the *California Education Code*, the *California Code of Regulations, Title 5* and the *Funding Terms and Conditions and Program Requirements for Child Development Programs* are part of each child development contract. Additionally, contractors may need to reference the *California School Accounting Manual* and the *Guide for Auditing Child Development, Nutrition, and Adult Basic Education Programs*. On-line sources for these publications are listed below:

## ***California Education Code***

[www.leginfo.ca.gov/calaw.html](http://www.leginfo.ca.gov/calaw.html)

## ***California Code of Regulations, Title 5***

## ***California School Accounting Manual***

## ***Guide for Auditing Child Development, Nutrition, and Adult Basic Education Programs***

are all available at:  
[www.cde.ca.gov/sp/cd/lr](http://www.cde.ca.gov/sp/cd/lr)

## ***Funding Terms and Conditions and Program Requirements for Child Development Programs***

This CDFS "Greenbook", ***Child Development Attendance and Fiscal Reporting and Reimbursement Procedures***

as well as CDFS Report Forms, Letter of Intent to establish a Reserve Account, etc:

are all available at:  
[www.cde.ca.gov/fg/aa/cd](http://www.cde.ca.gov/fg/aa/cd)

# CONTRACTS

Child Development contracts are **not** "grants" or "entitlements". A "**contract**" is a legally binding agreement between two parties. In the case of most Child Development contracts, the agreement is between a child care contractor and the CDE in which the contractor promises to provide child development services according to defined programmatic and fiscal expectations, and the CDE promises to reimburse the contractor for those services according to defined limits. Contracts are generally for one State fiscal year (July through June), and "*Contractors have no vested right to a subsequent contract*" (Title 5, Section 18010(a)).

## TERMS

Contract terms are initially negotiated by CDFS based on the contractor's application for funding. Contractors who apply for continued funding are usually offered a subsequent year's contract at the same terms. However, because the CDE must limit reimbursement to costs that are reasonable and necessary (per Title 5, Section 18033), CDFS annually conducts a Contract Review to identify programs that are unable to utilize their full contract amount, whether through low enrollment or low expenditures, and to redirect un-used portions of contracts to other areas where a greater need exists. Contract reductions are based on a multi-year pattern of earnings, and the Contract Review process includes participation by the contractor regarding any proposed reductions.

## EXECUTION

A contract is said to be "executed", i.e., put into effect, by the CDE Contracts Office only after both parties have signed the contract. Contractors will receive a copy of the contract once it has been executed. Until ***both copies*** of the contract have been signed by the contractor and returned to the Contracts Office for signing by CDE the contract cannot be executed; and until the contract is executed no advance payments can be made. Furthermore, if a contract is not executed and encumbered in a timely fashion, the CDE may lose the funding authority and be unable to reimburse the contractor.

***Contractors should SIGN and RETURN contracts and contract amendments to the Contracts Office AS SOON AS POSSIBLE.***

(See also "Amendments")

## CLASSIFICATION

Child Development contracts are classified according to Education Code Section 8406.6: either "Clear", "Provisional" or "Conditional". The words "Provisional" or "Conditional" are usually stamped on the face sheet of those contracts.

***Clear:*** applies to contracts that have no compliance problems.

***Provisional:*** applies to new programs that are being monitored for *"fiscal and programmatic compliance before granting clear contract status"*, and are issued with the "provision" of monthly reporting. "Provisional" status is contract-specific, usually applies to new contractors or contractors with a new program type, applies for a minimum of one fiscal year and is *"reviewed annually."*

***Conditional:*** *"applies to high-risk contracted agencies that evidence fiscal and or programmatic noncompliance"*, and contracts are issued with "conditions" that must be met prior to returning to "Clear" status. These conditions include monthly reporting to help the CDE monitor the contractor's compliance. "Conditional" status is agency-wide, applies to **all contracts** the contractor has with the CDE, continues for the length of time determined by the CDE, and while on Conditional Status the contractor *"shall not be eligible to apply for additional State Child Development program funds."*

# AMENDMENTS

Once a contract is issued, contract terms may only be changed through the contract amendment process, and any amendments must be executed before the end of the contract period. When a contract is amended, an amended face sheet will be sent from the Contracts Office. The effective date of the amendment will be on the face sheet, but the amendment cannot be executed until **both copies** of the face sheet are signed and returned to the Contracts Office (see also "Contracts"). ***Until an amendment is executed the current terms of the contract remain in effect***, except for **MRA reductions**, which **take effect immediately**. Some contract changes may be requested by the contractor, while others may be initiated by the CDE. Amendments may be programmatic or fiscal, and may affect reimbursement amounts.

## MRA – INCREASES and DECREASES

A contract MRA may be increased or decreased for various reasons: COLA, expansion funding, rate increase, CalWORKs reduction, CalWORKs augmentation, etc. An MRA change may also result in a corresponding change in service (minimum cde) requirements. (See also "CalWORKs MRA Adjustments")

## RATE – INCREASES

The California Education Code allows increases in contract rates, in order to maintain service levels, for agencies that can document the need for an increase under certain specific criteria. This rate increase process applies to center-based contracts with an assigned reimbursement rate. The rate increase process is an annual one, and notices are automatically sent to all contractors regarding the application process.

## MDO – DECREASES

The Minimum Days of Operation (MDO) is determined by the service calendar submitted by the contractor with the contract application and each year's application for continued funding, obligating the program to that many days of service to subsidized families. A contract MDO cannot be less than the minimum required for the program type unless approved by the CDD. The fiscal penalty for operating less than the MDO is a reduction in the contract's MRA. An agency may submit a revised calendar to CDD and request a reduction in the MDO; however, there is a 2% "flex" factor given for MDO (see "Flex Factors"), so no amendment is needed unless the number of days being reduced is greater than 2%. No amendment is needed for an agency to operate *more* than the minimum.

# CONTRACTOR'S RESPONSIBILITIES

By contracting to provide a State-subsidized child development program, a contractor takes on many responsibilities. From a fiscal point of view, CDFS would like to stress the following:

## RETURNING CONTRACTS AND AMENDMENTS

Funds cannot be advanced until a signed contract is returned to the Contracts Office. Any mid-year amendments also do not take effect until the signed amendment is returned. Contractors should ***return signed contracts and amendments as soon as possible*** to the Contracts Office.

## REPORTING

Report deadlines are clearly stated in the FT&C. Contractors are responsible for the ***timely submission of required reports*** that are ***properly identified*** (by contract number and agency contractual name, not a *site* name) and are ***complete*** and ***signed*** (or ***certified***, in the case of AP contracts). Changes in agency staff or other difficulties do not absolve the contractor from this responsibility. Reports not received shall be deemed *delinquent*, and apportionments *shall be withheld*. Reports that are not clearly identified, are incomplete, illegible or unsigned (or uncertified, for AP contracts) may *also* be deemed delinquent.

## PROGRAM MANAGEMENT and FISCAL EXPERTISE

A successful program must have sound fiscal management. *There is no requirement that an agency earn the full MRA of its contract!* What is important for fiscal solvency is that an agency does not spend more than it will collect as income. Contractors are responsible for ***knowing the details of their contract's Funding Terms and Conditions*** and pertinent sections of the Education Code and Title 5 regulations. While CDFS staff provides some technical assistance, contractors are ultimately responsible for ***monitoring*** their ***enrollment*** and ***expenditure*** levels, knowing what steps need to be taken ***to ensure program compliance***, and having the expertise to ***manage the program's finances and avoid deficit spending***. (See "Self Help: CDFS Worksheets")

## PAYING BILLS and OPERATING FUNDS

At the time of application for a new program, the CDE advises contractors to have three months of operating capital through cash, a line of credit, etc., to operate their program during the contract period prior to receiving advanced state apportionments. Ongoing contractors are advised to continue to have at least three months of operating capital in the event that State apportionments are withheld, delayed, lost in the mail, etc. *Contractors are*

*responsible for paying their bills regardless of any interruption in the flow of State funds.*

## **SUB-CONTRACTS**

A contractor may sub-contract all or part of a Child Development contract to another agency (see FT&C for limitations); however, the **contractor** is still responsible for **all programmatic** and **fiscal requirements** of the program as defined in the FT&C, including verifying excused absences, collecting Family Fees and submitting required reports.

# CONTRACT NUMBERS

Child Development program contract numbers identify the program type and the fiscal year. Continuing programs may apply for continued funding but contracts are not renewed, instead a new contract is issued each fiscal year with a different contract number. Contract numbers are on the face sheet of each contract and are a series of eight alpha/numeric characters: the first four characters designate the fund source (although some "G" contracts may include both State General funds and Federal funds) and the program type; the second four characters are all numeric – the first number designates the fiscal year (the last digit of the first half of the fiscal year, e.g., FY 2004/05 would be a "4"), the last three numbers are the contract sequence number within that program type.

**EXAMPLE:** Contract number **GPRE4123:**

**G** = State General Fund

**PRE** = State Preschool

**4** = FY04/05

**123** = 123<sup>rd</sup> general center-based contract issued.

**NOTE:** The numeric sequence repeats with each program type, so there may be contracts with similar numbers such as "GAPP4123" and "FAPP4123" issued, perhaps to the same contractor. Be very careful to use the **exact** contract number on all communications about your program, especially the Attendance and Fiscal Reports.

Following are the current Child Development contract designations and program type by associated fund source. A "G" contract that also includes Federal funds will specify on the contract face sheet the amount from the State General Fund and the amount from the Federal Child Care & Development Fund. (*Alternative Payment-type contracts are shown in italics*):

State General Fund:

<b>GAPP</b>	<i>Alternative Payment</i>
<b>GCAM</b>	Campus Child Care
<b>GCTR</b>	General Child Care
<b>GFCC</b>	<i>Family Child Care Homes</i>
<b>GR&amp;R</b>	Resource and Referral
<b>GHAN</b>	Severely Handicapped
<b>GLTK</b>	School Age Community Child Care Services ("Latchkey")
<b>GMIG</b>	Migrant
<b>GMSS</b>	Migrant Special Services
<b>GPRE</b>	State Preschool
<b>GWAP</b>	Wrap-Around Preschool (full-day Preschool program)
<b>G2AP</b>	<i>CalWORKs (Stage 2)</i>
<b>G3TO</b>	<i>CalWORKs (Stage 3)</i>

## Federal Child Care & Development Fund:

<b>FAPP</b>	<i>Alternative Payment</i>
<b>FCTR</b>	<i>Center-based</i>
<b>FFCC</b>	<i>Family Child Care Homes</i>
<b>F2AP</b>	<i>CalWORKS (Stage 2)</i>
<b>F3AP</b>	<i>CalWORKs (Stage 3)</i>

## **SUPPORT CONTRACTS**

Support contracts do not directly serve children but supplement service-related contracts or otherwise support the child development community. Some require an application to CDD, while others are offered automatically to eligible contractors. Support contracts are often referred to as "one-time-only" contracts because funding and availability can vary each year according to the State Budget Act. The most common support contract types are:

<b>GEAM</b>	Equipment & Materials
<b>GFIC</b>	Increasing Capacity for Disabled Children
<b>GPCF</b>	Playground Compliance
<b>GPKR</b>	Pre-Kindergarten Resource Program
<b>GPSR</b>	Playground Safety & Materials
<b>GRET</b>	Salary/Retention Incentive
<b>GRPM</b>	Facility Renovation and Repair
<b>GTAX</b>	Campus Tax Bailout
<b>FCAP</b>	Infant & Toddler Child Care Resource
<b>FCIP</b>	Child Care Initiative Project
<b>FHST</b>	Health & Safety
<b>FIMS</b>	Instructional Materials & Supplies
<b>FITP</b>	Infant/Toddler Playground Safety
<b>FLPC</b>	Local Planning Council
<b>FSCC</b>	School Age Child Care Resources



## BASIC RULE

The single most important *fiscal* principle for contractors to remember is the following:

### BASIC RULE FOR CDE CHILD DEVELOPMENT CONTRACTS



State contract funds  
must be spent on

**reimbursable costs**

for

**eligible children.**

- Contractors should become familiar with their contract Funding Terms and Conditions so they know what expenses are reimbursable, and which reimbursable costs have limits.
- Since CDE contracts subsidize only certified children, if a program includes noncertified children the CDE will prorate the total program costs to determine the appropriate amount to be allotted to the State-subsidized portion.
- Contractors should monitor both their enrollment and their expenses so they don't spend more than their income.

# REPORTING DEADLINES

All contractors must submit reports *"at intervals specified in the annual child development contract"* (Title 5, Section 18068a). **Monthly reporting** is required for *"Contractors on conditional or Provisional status"* (Title 5, Section 18068c), CalWORKs and part-year Migrant programs\*. All other contractors shall submit reports **quarterly** for the periods ending: September 30th, December 31st, March 31st, and June 30th, and are due **by the 20th of the month** following the end of the reporting period. Reports not received in CDFS by the dates specified shall be deemed delinquent and *"apportionment(s) shall be withheld"* (FT&C). (See "Apportionment Notifications") Reporting periods are listed below:

Report Month	Report Due Date	Contractors Required to Report*
-----		
--		
July	August 20	Conditional, Provisional, Part-Year Migrant, CalWORKs
August	September 20	Conditional, Provisional, Part-Year Migrant, CalWORKs
<b>SEPTEMBER</b>	October 20	<b>ALL CONTRACTORS</b>
October	November 20	Conditional, Provisional, Part-Year Migrant, CalWORKs
November	December 20	Conditional, Provisional, Part-Year Migrant, CalWORKs
<b>DECEMBER</b>	January 20	<b>ALL CONTRACTORS</b>
January	February 20	Conditional, Provisional, Part-Year Migrant, CalWORKs
February	March 20	Conditional, Provisional, Part-Year Migrant, CalWORKs
<b>MARCH</b>	April 20	<b>ALL CONTRACTORS</b>
April	May 20	Conditional, Provisional, Part-Year Migrant,
CalWORKs		
May	June 20	Conditional, Provisional, Part-Year Migrant, CalWORKs
<b>JUNE</b>	July 20	<b>ALL CONTRACTORS</b>

- \* 1) **Part-year Migrant** contract reports are not required when the program is not in operation.
- 2) **ALL CalWORKs** contracts require **monthly** reporting. (See "CalWORKs Reporting")

## DEADLINE NOTES:

- Postmark dates *do not* qualify as receipt dates.
- If the 20th of the month falls on a weekend or State holiday, the due date will be the next State working day.
- Contractors on a quarterly reporting schedule **may** submit additional reports for intermediate months; the above schedule is the minimum required.

## REPORT FORMS

All reports **except for AP contracts** (see below) must have an **original signature**: reports unsigned, sent via fax machines or with computer-generated or rubber stamp signatures are not acceptable and *will be considered delinquent*. CDFS report forms are available on the FASD/CDFS website: [www.cde.ca.gov/fg/aa/cd](http://www.cde.ca.gov/fg/aa/cd). Please note that the **INSTRUCTIONS** are on separate pages, so **please copy all pages** for staff who need the instructions.

A computer-generated form is *only* acceptable if it has the same *format* and *information* as the CDFS form and *has been approved by the analyst* who processes it.

## **INTERNET REPORTING for AP CONTRACTS**

**Alternative Payment** contractors must report electronically via the Internet. This is a two-step process of submission and certification, with the **certification** process substituting for an original signature. AP reports not ***submitted and certified*** by the due date are considered delinquent. For Internet submission, see the CDE website at:

[www2.cde.ca.gov/cdfs/logon.asp](http://www2.cde.ca.gov/cdfs/logon.asp)

# COMMINGLED PROGRAMS

A commingled program is one that serves children funded from different funding sources. "Commingled child care services" is defined as *"the provision of services to both subsidized and nonsubsidized children in the same classroom at the same time"* (Title 5, Section 18013(i)). The most common situation (Example 1) is a program that serves both **certified** children (those subsidized by the contractor's CDE contract) and **non-certified** children (those funded by parent fees or any other funding source, *including children subsidized by a CDE contract with another contractor*). The Attendance and Fiscal Report for a commingled program consists of separate enrollment data for certified and non-certified children and combined fiscal data for the entire program.

**EXAMPLE 1.** A general center-based contract (GCTR) commingled with non-certified children will submit a CDFS9500 report with three pages:

- > page 1, Section I, enrollment for certified children;
- > page 2, Section II, enrollment for non-certified children;
- > page 3, Sections III & IV, fiscal data for the entire program.

With the availability of federal funding for CDE programs, "commingled" also includes a single program operated by a contractor but funded by multiple state contracts of the same program type (e.g., GCTR and FCTR), because certified children subsidized by one contract are counted as "nonsubsidized" by the other contract. Contractors with multiple CDE contracts must keep accurate records that clearly show subsidized children receive funding from only one contract: **the enrollment and costs of a child may not be charged to more than one contract**. In addition, certified Family Fees, interest on advanced contract funds and any Start-Up expenses for **each** contract must be separately identified on the fiscal page.

**EXAMPLE 2.** A program consisting of Example 1 (above) to which has been added a federally funded center-based contract (FCTR) will submit a single CDFS9500 report with four pages:

- > page 1, Section I, enrollment for certified children (GCTR contract);
- > page 1, Section I, enrollment for certified children (FCTR contract);
- > page 2, Section II, enrollment for non-certified children;
- > page 3, Sections III & IV, fiscal data for the entire program.

(Be sure that each enrollment page has the proper contract number at the top; and that the fiscal page has both contract numbers at the top, and includes combined fiscal data for the entire program.)

**NOTE:** Because contract rates or MDO may need to be adjusted, CDE contracts cannot be commingled without prior arrangement with CDFS. Contact your CDFS Fiscal Analyst if you want to commingle two or more CDE contracts as one program.

Contractors with two CDE contracts funding a single program serving **only subsidized** children may choose to report each contract separately using a program cost allocation plan. If you have any question as to which forms or pages to include in your report of a commingled program, contact your CDFS Fiscal Analyst.

(See also "Co-Located and Program Cost Allocation")

# CO-LOCATED and PROGRAM COST ALLOCATION

## CO-LOCATED PROGRAMS

Co-located programs are those that share the same facility but cannot be commingled because they are different program types with different program requirements. Contractors with co-located programs **must report each program separately** because of the different program types, and therefore **must have a program cost allocation plan** to accurately report the appropriate costs for each program.

**EXAMPLE:** A contractor operates at the same site a State Preschool program and a General center-based program. Since the two programs have different requirements they cannot be commingled, but there are some facility and staffing costs (electricity, program director's salary, janitorial services, supplies, etc.) shared by both contracts.

## PROGRAM COST ALLOCATION PLAN

A program cost allocation plan identifies the amount of shared expenses ascribed to each program operated by a contractor, whether or not funded by a CDE contract. A common example is a program director whose duties, and consequently whose salary, is divided between two programs. Situations that require a program cost allocation plan include:

- Costs shared between a CDE program and a separate private program.
- Costs shared between two or more CDE programs.
- A combination of the above.

CDFS urges any contractor operating multiple programs, or a program funded by multiple contracts, to discuss a program cost allocation plan with their Certified Public Accountant. Contractors unsure whether or not they need a program cost allocation plan should have their CPA contact the Audits and Investigations Division (AID).

For LEAs, a program cost allocation plan should be reviewed and approved by the contractor's CPA prior to implementation.

For private contractors, a program cost allocation plan should be reviewed by the contractor's CPA prior to implementation. The contractor's annual audit must indicate that a program cost allocation plan was used. If the plan is not acceptable to the Audits and Investigations Division, the contractor faces the risk that some allocated costs will be disallowed during audit review.

**NOTE:** A "program cost allocation plan" is **not** the same as an "indirect cost allocation plan" which is also approved by the contractor's CPA.

(See also "Commingled Programs")

# ENROLLMENT vs. OPERATION vs. ATTENDANCE

On center-based reports, three items that are frequently mistaken for each other are "Days of Enrollment", "Days of Operation" and "Days of Attendance." While enrollment and attendance are most closely related, and in many cases are identical, they are separated on the report form by the line for days of operation. (Some "Latchkey" programs are reimbursed by Hours rather than by Days, but in the following explanations "Days" will be used.)

## DAYS OF ENROLLMENT

"Days of Enrollment" is the enrollment data from the contractor's enrollment and attendance register totaled for all children in the program for the days the contractor is open to provide services. The schedule of enrollment for each child depends on need according to the Application for Services and reflected in the contractor's Notice Of Action approval for services, and if a family's need for service changes the **family file must be updated** (applications *"shall be updated within thirty days"* per the FT&C). "Latchkey" contractors with an **hourly rate** should round enrollment to the next **whole hour** (e.g., a child needing 6.25 hours of service would be enrolled for 7 hours). Certified enrollment and non-certified enrollment are reported separately.

**NOTE:** Enrollment for any category can only be a **whole number**, since it is a product of the number of children enrolled for that category times the number of calendar days they are enrolled. (Logically, one cannot enroll a half of a child.) Adjusted enrollment, however, may result in a fractional number because of the adjustment factor.

## DAYS OF OPERATION

A "Day of Operation" is a day the contractor provides child care and development services for one or more **certified** children enrolled. If your agency is open for business, and you even do some work for your program (such as holding a staff development day), but no service is provided to subsidized families that particular day then your program has **not** had a day of operation. Total "Days of Operation" is a count of the calendar days the program has provided service. Contractors may operate more than their contracted MDO, but if actual "Days of Operation" reported on *interim* reports greatly exceed the calendar submitted as the basis for the MDO the earnings projections calculated by CDFS may not be accurate. On the final fiscal report, total "Days of Operation" that exceed the MDO *do not* affect final earnings calculations; however, days that are **less** than the MDO could result in a reduction of the MRA (see "Non-Operating Days" and "Flex Factors").

## DAYS OF ATTENDANCE

Children are in attendance when they are present in the program for any part of a day for which they are enrolled, or if they have excused absences. Excused absences are *"because of illness, quarantine, illness or quarantine of their parent, family emergency, or to spend time with a parent or other relative as required by a court of law or that is clearly in the best interest of the child"* (Education Code Section 8208(e)). Contractors operating centers and/or family child care homes shall use daily sign-in/sign-out sheets as a primary source document for reporting purposes (Title 5, Section 18065). Total "Days of Attendance" should be about the same as total "Days of Enrollment": the two totals will be identical if there are no unexcused absences; attendance will be less than enrollment if there are some unexcused absences; attendance can never be greater than enrollment. Attendance of non-certified children is not reported.

# ADJUSTMENT FACTORS – PART-DAY

Many center-based contracts allow for actual enrollment to be adjusted by part-day adjustment factors. Part-day designations (full-time, half-time, etc.) account for costs based on length of services in a day. Rather than complicate contracts with multiple reimbursement rates for these part-day designations, the CDE uses adjustment factors to change actual enrollment to *Adjusted* Days of Enrollment. Since service-level earnings are based on the contract rate multiplied by Adjusted Days of Enrollment, this has the effect of different rates.

## GENERAL PROGRAMS

General programs are divided into a four-part day. The four divisions and their adjustment factors, per Education Code Section 8266.1, are:

Full-Time-Plus	(10.5 hours and over)	1.18
Full-Time	(6.5 to under 10.5 hours)	1.00
Three-Quarters-Time	(4 to under 6.5 hours)	0.75
Half-Time	(under 4 hours)	0.55

## LATCHKEY PROGRAMS

School Age Community Child Care ("Latchkey") programs are divided into a five-part day. The five divisions and their adjustment factors are:

Full-Time-Plus	(10.5 hours and over)	1.50
Full-Time	(6.5 to under 10.5 hours)	1.00
Three-Quarters-Time	(5 to under 6.5 hours)	0.75
Half-Time	(2.5 to under 5 hours)	0.50
One-Quarter-Time	(under 2.5 hours)	0.25

## NOTE:

- 1) **Do NOT** round off adjusted enrollment calculations; multiply to as many decimal points as necessary.
- 2) Earnings calculated using adjustment factors do **NOT** increase a contract's MRA.
- 3) A child may be enrolled "full-time" on one day and "half-time" on another day according to his need.
- 4) If a child's attendance pattern changes from his enrollment, his enrollment should be updated. (See "Enrollment vs Operation vs Attendance")

## CONTRACTS EXCLUDED from PART-DAY ADJUSTMENT FACTORS

State Preschool, Preschool Wrap-Around, Severely Handicapped and "Latchkey" contracts with an hourly rate are programs with special requirements that define the length of service and are already reflected in their contract rates. Therefore, these programs do **NOT** use part-day adjustment factors.

# ADJUSTMENT FACTORS – SPECIAL CRITERIA

Many center-based contracts allow for actual enrollment to be adjusted by special criteria adjustment factors. Special criteria factors recognize that different categories of children (infants, severely disabled, etc.) require special care or services, and that the costs for these services vary. Rather than complicate contracts with multiple reimbursement rates, the CDE uses adjustment factors to change actual enrollment to *Adjusted Days of Enrollment*. Since service-level earnings are based on the contract rate multiplied by Adjusted Days of Enrollment, this has the effect of different rates.

## SPECIAL CRITERIA ADJUSTMENT FACTORS

Adjustment factors for children meeting specified criteria are defined in Education Code Section 8265.5. These adjustment factors are reproduced on the Attendance and Fiscal Reports, and extrapolated for the part-day designations other than full-time. For "Latchkey" programs, eligibility is limited to *"kindergarten through 9th grade"* (Title 5, Section 18202). For **all** programs, the category for limited-English and non-English speaking applies only through kindergarten age. The specified criteria (***allowed age ranges***), and adjustment factors are:

- infants, served in a child day care center (***0 to 18 months of age***), 1.7;
- toddlers, served in a child day care center (***18 to 36 months of age***), 1.4;
- infants and toddlers, served in a Family Child Care Home (***0 to 36 months of age***), 1.4;
- exceptional needs (***0 to 21 years of age***), 1.2;
- severely disabled (***0 to 21 years of age***), 1.5;
- at risk of neglect, abuse, or exploitation (***0 to 14 years of age***), 1.1;
- limited-English-speaking and non-English-speaking  
(***2 years of age through kindergarten age***), 1.1.

### NOTE:

- 1) **Do NOT** round off adjusted enrollment calculations; multiply to as many decimal points as necessary.
- 2) A child's enrollment SHALL NOT be reported in more than one category.
- 3) Earnings calculated using adjustment factors do **NOT** increase a contract's MRA.
- 4) Reimbursement resulting from the use of adjustment factors *"shall be used for special and appropriate services for each child"* (Education Code Section 8265.5).

## CONTRACTS EXCLUDED from SPECIAL CRITERIA ADJUSTMENT FACTORS

Contracts with rates higher than the SRR cannot use the special criteria adjustment factors, because state law does not allow adjusted rates to exceed the adjusted SRR. This is specified in Education Code Section 8265.5, which states that *"The adjustment factors shall apply to those programs for which assigned reimbursement rates are at or below the standard reimbursement rate. In addition, the adjustment factors shall apply to those programs for which assigned reimbursement rates are above the standard reimbursement rate, but the reimbursement rate, as adjusted, shall not exceed the adjusted standard reimbursement rate."* Contractors with a rate higher than the SRR may request a permanent lowering of the contract rate to the SRR and may then utilize the special criteria adjustment factors. Contractors with a rate higher than the SRR **must report on a CDFS9500-HR** report form. Also, State Preschool, Preschool Wrap-Around, and Severely Handicapped programs have rates that are already adjusted for the category of children they serve; therefore, those programs do **NOT** use Special Criteria Adjustment Factors.



# NON-OPERATING DAYS

The service calendar submitted by the contractor is the basis for the Minimum Days of Operation (MDO) contract term, obligating the contractor to provide subsidized services on those days. Contractors report as days of operation only those days when State-subsidized children receive services under the contract. A non-operating day is any day the contractor does **not** provide services to at least one subsidized family. Failure to operate the contracted MDO may result in a reduction of the contract MRA. However, there are two situations when a non-operating calendar day **may** have no adverse affect on MRA or service earnings: emergency closure circumstances and staff training days.

## EMERGENCY CLOSURE

Emergency closure may be requested for days the contractor intended to operate but was unable to do so due to circumstances beyond the contractor's control, *"including earthquakes, floods, or fire"*, per Education Code Section 8271, or due to a state of emergency *"declared by the Governor"*, per Education Code Section 8209. In these instances, contractors may count the non-operating day as a day of operation upon written approval from the CDE. Contractors must submit to CDD a written request for an emergency closure waiver, giving the circumstances for the closure. If approved, the CDD will instruct the contractor to report the day of operation and the attendance for that day as if it had occurred. Contractors should not assume that every request will be approved, and should wait until receiving written approval before adding the day(s) and attendance data to the CDFS report form (this may mean submitting a corrected report, see "Revised Reports").

## STAFF TRAINING DAYS

Staff training days benefit the program, but because children are not receiving services those days cannot be reported as days of operation and should not be included on the service calendar submitted. (If the contractor brings in substitute staff and provides subsidized services then it is a day of operation.) **IF** service calendar days are used as staff training days (without providing services) there **may** be an adverse affect on contract reimbursement, either by lowering the MRA due to failure to meet the contract MDO or by insufficient service earnings:

**Effect on MRA:** Service calendar days used as staff training days **may** affect the contract MRA because the contractor is operating less than 100% of the MDO. Contractors who fail to operate at least 98% of the contract MDO will have the contract MRA *"reduced in proportion to the percentage of the contract minimum days of operation that the contractor was not in operation"* (Title 5, Section 18055). This allows a two percent (2%) "flex for minimum days of operation" (2% of a 250 day calendar is five days; 2% of 175 days is three days), and this allowance is usually sufficient to account for a few non-operating days, some of which may be used for staff training (see "Flex Factors").

**Effect on Service Earnings:** Staff training days with no services provided may mean the contractor will not have sufficient total certified enrollment to generate enough service-level earnings to cover certified program costs or earn the contract MRA (see "Limits of Reimbursement"). To substitute for enrollment lost due to staff training days, a contractor may need to increase enrollment by enrolling more children, or enrolling children for longer periods of time, on days the program is in operation. (See "Self-Help: CDFS Worksheets")

# ACCRUAL vs. CASH ACCOUNTING

The CDFS unit uses the Attendance and Fiscal Reports to project a contractor's final fiscal year earnings, and adjusts monthly apportionment amounts according to that projection. Title 5 regulations for Child Care and Development Programs require that *"Contractors shall report expenditures on an accrual basis"* (Section 18063). Reports using the accrual basis, which describe costs as they occur rather than when they are actually paid, provide a more reliable base for projections.

**EXAMPLE:** A contractor's annual insurance premium is due in June; monthly prorations of that premium should be reported from the beginning of the fiscal year so that mid-year projection calculations anticipate the total expenditure. On the other hand, if the contractor uses the cash basis and waits to report the entire expense on the June final report after the premium is actually paid, then the mid-year projections could indicate a low expenditure level, resulting in lower apportionment amounts during the year and possibly a delay of reimbursement for the expense until months later after the audit has been reviewed.

Projections based on reports using the accrual basis are less likely to underestimate final program costs for the contract year, and are therefore less likely to result in an apportionment reduction.

Accrued costs or encumbrances become reimbursable costs when the services or goods have been **received** by the program.

## EXAMPLES:

- A. Staff is paid every other Friday, but December 31 falls on a Tuesday so staff actually receives their paychecks on Friday, January 3. Personnel costs through the end of December should be reported for the December period when the services were performed rather than the later period (January) when checks were issued.
- B. A purchase order for supplies is sent to a vendor, and the amount to pay for the order is encumbered in the contractor's books; this becomes a reimbursable cost for the fiscal year if the supplies are **delivered** to the contractor by June 30. Once the order is actually received the encumbrance becomes a liability, and therefore a reimbursable expense, *for the period when it was received*. For bookkeeping and audit purposes, an "Accounts Payable" should be posted to the fiscal year when the goods were received if the payment check is not dated until after June 30.

Accrued income (e.g., anticipated Family Fees) should be posted as an "Accounts Receivable". Received income should be posted *to the contract period to which it relates*, regardless of when it was actually received (e.g., Family Fees for June that are received in July of the next fiscal year should be posted to the previous fiscal year contract period). During the year, estimated or accrued costs and revenue should be adjusted on subsequent reports in the "Cumulative Prior Period" column to reflect actual costs and income data, but at the end of the year (following the June final report) submission of a revised report may be necessary. (See "Revised Reports").

# REVENUE

The fiscal page of a report form includes a section for Revenue. Below is some basic information about reporting income data; other information will be found in the "Family Fees", "Interest" and "Accrual vs. Cash Accounting" pages.

## REPORT EVERYTHING ... EXCEPT CONTRACT PAYMENTS

All income related to the program, for both certified and noncertified children, including any funding "match" required by the contract terms, shall be reported, *except for one thing*: **do not report** the amount of *CDE contract payments received* for the program (Title 5, Section 18068(a)(4)). Contract payments are not considered *program income* but rather are reimbursements that have been sent as advanced apportionments; and CDE is aware how much has been advanced. To include contract reimbursement as data that is used to compute that contract reimbursement will result in an incorrect, low earnings level.

## ROUND DOLLARS

The CDFS computer system does not recognize cents, and CDE reimbursements are calculated as whole dollars, so there is no need for contractors to report cents on CDFS Attendance and Fiscal Reports. **Please round fiscal amounts to the nearest whole dollar.**

## RESTRICTED INCOME

Income is restricted if it "*may only be expended for specific limited purposes*" (Title 5, Section 18013(t)). If someone simply gives money to your *agency*, it is not restricted; if someone gives money for your child care *program* expenses, to *serve children* in your program, to buy *food* for the children in the program, etc., those are restrictions.

**NOTE:** For reporting purposes, income should be designated "restricted" if it is to be used for expenses that are *reimbursable* under the contract; income that is restricted for purposes that are *not* reimbursable under the contract should be reported as nonrestricted income.

**EXAMPLE:** Income taxes are not reimbursable program expenses, so if someone donated money specifically to pay the state or federal income tax for your program it should be reported as "nonrestricted" income (and the tax expenditure a "nonreimbursable" expense) on the CDFS Attendance and Fiscal Report.

## NEVER USE NEGATIVES

Generally accepted accounting principles use debits (positive numbers) and credits (negative numbers) to create a trail of transactions. CDFS fiscal reports, however, express the **results** of those transactions, i.e., the end of the trail. For example, an auditor will need to know that you began with (debited) ten and subtracted (credited) four resulting in six, but the CDFS fiscal report simply asks for the end result of six. (If you began with an income of six and subtracted ten to get a negative four in income, the end result you would report would be an income of zero and an expense of four – logically, a negative income is an expense.) Since all data on the report form is cumulative, negative numbers should never be used. (See also "Revised Reports")

# FAMILY FEES

Child Development contracts provide funding for services to low-income families who could otherwise not afford child care services. Eligible families, however, may be required to pay a portion of the costs for care (as determined by income eligibility in the CDD Family Fee schedule), and contractors are required to collect fees from those families. Family Fees (sometimes called parent fees) are in lieu of contract payments, i.e., the fees that subsidized families provide reduces the amount of contract funds that CDE needs to provide. *"Fees received from subsidized parents are to be expended and earned by the contractor before contract funds shall be claimed for reimbursement"* (Title 5, Section 18039).

**EXAMPLE:** CDE contracts with an agency to provide \$20 for subsidized services to a child, and the contractor spends \$20 on the child. However, the parent of the child pays \$4 in Family Fees, so the state need only provide \$16 in contract reimbursement.

Because Family Fees are spent before contract funds, the earnings calculation subtracts Family Fees from reimbursable earnings, which may result in advanced contract funds being returned to the State. However, contractors may also be reimbursed the full contract amount if they provide additional services beyond the minimum required by the contract: if the earnings calculation indicates enrollment and expenses that support additional services for certified children, the amount of certified Family Fees may have no effect, or only a partial effect, on contract earnings.

**EXAMPLE:** CDE contracts with an agency for \$20, and advances \$20. The contractor actually provides \$30 worth of services, collects \$4 in Family Fees, and spends a total of \$23. CDE calculations subtract the \$4 Family Fees from the lesser of service earnings or costs (in this case the \$23 costs) resulting in \$19 of contract reimbursement. The contractor would have to pay back \$1 to the State from the \$20 advanced.

**REPORTING NOTE:** There are separate lines in the Revenue section of the report form for "Family fees for certified children" and for "Parent fees for noncertified children".

**DO NOT** confuse these fees when reporting, since *only Family Fees for certified children* affect contract earnings.

**AP NOTE:** AP contractors may allow Family Fees to be collected directly by providers and offset against contractor payments; however, the contractor is still responsible for assessing the correct amount of Family Fees and reporting those fees as program revenue and as payments to the provider. (Since Family Fees are spent first in lieu of contract funds, they are payments to the provider.) Family Fees are not the same as a co-payment, which a parent may owe directly to a provider (see below).

## PENALTIES for NON-COLLECTION or NONPAYMENT of FAMILY FEES

Contractors *shall* assess Family Fees according to the fee schedule prepared by the CDE,

per Title 5, Sections 18109-18110, and as stated in the FT&C. Failure of a contractor to assess Family Fees is a violation of the contract FT&C and **could be cause for contract termination.**

Families who are delinquent in paying the required fees shall receive a Notice Of Action, per Title 5, Section 18114, and as stated in the FT&C. **Families who do not pay delinquent fees shall have child care services terminated.** Contractors shall provide families at the time of enrollment a written policy regarding fee requirements and the consequences of nonpayment.

## **PARENT FEES (INCOME) for NON-CERTIFIED CHILDREN**

Parent fees for non-certified children must be reported on the "Parent fees for noncertified children" line of the report form. Income for services to non-certified children from sources other than parents should be reported as "Other" non-restricted income (please specify the source of the income and its purpose). Parent fees and other income for non-certified children do not affect contract earnings.

## **CO-PAYMENTS for AP PROGRAMS**

A co-payment is also a responsibility of the family. Families participating in an Alternative Payment program have a choice of providers, but depending on their choice they may be responsible for a co-payment if the provider's charge is higher than the amount he receives as a provider payment (including any Family Fee) from the AP contractor. A co-payment is a payment by a subsidized family paid directly to a child care provider in excess of the amount the provider receives from an Alternative Payment contractor as subsidized payment and any required Family Fee. A co-payment is a separate agreement between the family and the provider, is not reported by the AP contractor to the CDE and does not affect state contract reimbursement calculations.

# INTEREST

Contractors are required to report all revenue for their program, including interest income (Title 5, Section 18068).

## INTEREST EARNED ON CONTRACT FUNDS

Each contractor receiving funds for Child Development programs must establish a Child Development Fund in accordance with Title 5, Section 18064 and Education Code Section 8328. If a contractor chooses to place advanced contract funds in an account that bears interest, those funds shall be placed in a separate account within the Child Development Fund. (If advanced contract funds to an LEA contractor are deposited in the county treasury, any interest generated by those funds must also be separately identified and reported.) All interest earned on advanced CDE contract funds shall be reported on the designated line on Attendance and Fiscal Reports submitted to CDFS.

Since advanced contract payments are actually an advance of State reimbursement, any interest earned on those advanced funds is the property of the State and must be returned. However, CDE will not bill for a return of contract interest *if* the interest has been **spent** on reimbursable costs **and earned** by providing sufficient additional services for certified children beyond the minimum specified in the contract (Title 5, Section 18064). Resource & Referral Programs that do not have a minimum service requirement may spend interest on additional reimbursable costs. Final FY contract earnings calculations subtract interest from reimbursable earnings in a similar manner as Family Fees. For reimbursement purposes, all interest earned on advanced contract payments shall be computed as "last-in/last-out" (Title 5, Section 18057). "Last-in/last-out" means that these funds will be treated as the last funds received as income and will be the last to be spent for program costs; and since these funds are last to be expended they are first to be returned to the State if a billing is necessary (and will show on the CDE invoice for over-advanced contract funds as "interest" being billed).

**NOTE:** Advanced contract amounts are not required to be in an interest-bearing account. On the other hand, unused contract funds retained in a Reserve Account **are** required to be in an interest-bearing account (see "Reserve Account Basics").

## INTEREST EARNED ON NON-CONTRACT FUNDS

Interest earned on funds from other sources must not be reported on the lines specified for interest earned on contract payments, but should be reported under "Other" income. Other interest could include interest earned on non-certified parent fees, donations, etc. Other interest has no affect on contract earnings reimbursement calculations.

# EXPENSES

The fiscal page of a report form includes a section for Expenses. Below is basic information about reporting expenditure data; other detailed information will be found in the "Start-Up", "Indirect Costs", "Administrative Costs" and "Accrual vs. Cash Accounting" pages.

## REPORT EVERYTHING

All expenses related to the program, for both certified and non-certified children, shall be reported (Title 5, Section 18068(a)(5)), including any nonreimbursable expenses. Report all program expenses, regardless of the fact that contract reimbursement may be limited to prorated expenses. (See also "Limits of Reimbursement" and "Proration of Costs")

## ROUND DOLLARS

The CDFS computer system does not recognize cents, and CDE reimbursements are calculated as whole dollars, so there is no need for agencies to report cents on CDFS Attendance and Fiscal Reports. **Please round fiscal amounts to the nearest whole dollar.**

## SALARIES

The two salary designations are "Certificated" and "Classified". The California School Accounting Manual defines "Certificated" as *"salaries that require a credential or permit issued by the Commission on Teacher Credentialing."* Other permits may also apply; if in any doubt about an employee qualifying as "certificated", please contact your assigned consultant in the Child Development Division. Employees that are not "certificated" should be considered "classified".

**NOTE:** "Certificated" salaries should be reported as such if the **position** requires the certificate, according to the FT&C staffing qualifications. If a person happens to have a teaching credential but is employed as a secretary or in any other position that does not require the credential then his salary should be reported as "classified".

## NEVER USE NEGATIVES

Generally accepted accounting principles use debits (positive numbers) and credits (negative numbers) to create a trail of transactions. CDFS fiscal reports, however, express the **results** of those transactions, i.e., the end of the trail. For example, an auditor will need to know that you began with (debited) ten and subtracted (credited) four resulting in six, but the CDFS fiscal report simply asks for the *end result* of six. (If you began with an expense of six and subtracted ten to get a negative four in expenses, the end result you would report would be an income of four and an expense of zero – logically, a negative expense is an income.) Since all data on the report form is cumulative, negative numbers should never be used. (See also "Revised Reports")

## CALIFORNIA SCHOOL ACCOUNTING MANUAL

The "California School Accounting Manual" published by the CDE is a good resource for additional information, especially "Procedure No. 401: Accounting for Expenditures and Other Financing Uses", and Appendix B, which categorizes various items as supplies, equipment, etc.

## START-UP (SERVICE-LEVEL EXEMPTION)

If a contract includes a Start-Up Allowance it will be identified on the contract face sheet as a dollar amount, but it is actually a service-level exemption: a portion of the contract that may be reimbursed without the required enrollment to earn that amount. One of the three limits of reimbursement is service-level earnings (basically, enrollment multiplied by the contract rate; see "Limits of Reimbursement"). However, the CDE recognizes that a new program may have legitimate expenses prior to having sufficient enrollment to earn those expenses: start-up costs are *"those expenses an agency incurs ... prior to the full enrollment of children"* (Education Code Section 8208(ab)). In granting a Start-Up Allowance the CDE exempts some of those expenses from the contract's service requirement by increasing actual total service earnings by the amount claimed as Start-Up Expenses, and this adjusted reimbursement limit makes it easier for the contractor to be reimbursed his expenses. A Start-Up Allowance is **not an annual term** and contractors are **not entitled to a specific percentage** as a Start-Up Allowance: the CDE *"may reimburse approvable start-up costs"* in *"an amount not to exceed 15 percent of the expansion or increase"* of the contract amount (Education Code Section 8275). Start-Up is **not additional funding** but is part of the contract MRA. This service-level exemption is included in earnings calculations that determine apportionment amounts and final reimbursement, and **no separate check** will be issued for a Start-Up Allowance.

### EXAMPLE:

#### Contract terms:

MRA: \$100,000	(new contract Maximum Reimbursable Amount)
Rate: \$20	(a daily rate)
MDO: 248	(Minimum Days of Operation)
cde: 5,000	(minimum child days of enrollment required to earn MRA)
Start-Up: \$15,000	(maximum allowed, 15% of expansion MRA)

#### Actual program costs:

(minus subsidized Family Fees and Interest): **\$ 95,812**

#### Adjusted service level earnings:

(minus subsidized Family Fees and Interest): **\$ 98,765** as follows:  
*actual service* of 4,500 cde x \$20 Rate x 100% attendance = **\$ 90,000**  
plus claimed (identified) Start-Up expenses of \$ 8,765 + **\$ 8,765**

*Without the Start-Up Allowance this program would have earned a total reimbursement of \$90,000 (their actual service level earnings), but in this example the total reimbursement is \$95,812 (the least of the three limits of actual costs, adjusted service earnings or MRA).*

### NOTE:

1: Start-Up expenses must be identified (claimed) on the **"Start-Up Expenses"** line in the expense section of the report form **instead of the category line where they would normally be listed**; **DO NOT** report them in *both* places. Start-Up expenses must also be identified in the contractor's audit. In the above example, if the agency had not *claimed* any Start-Up expenses their reimbursement would be limited to the \$90,000 of actual service earnings.

2: Since a Start-Up Allowance is not separate or additional funding, any "unused" Start-Up Allowance cannot be reserved or carried over to a subsequent fiscal year.

3: A program that has sufficient enrollment earnings to cover costs, or to earn the full contract MRA, will not need the Start-Up allowance exemption.



## MIGRANT "START-UP/CLOSE-DOWN"

Part-year migrant contracts include an amount allowed for "Start-up/Close-down" listed on the contract face sheet. (*This is different from a "Start-Up" allowance, which is a one-time service-level exemption for new or expanded contracts.*) Part-year (seasonal) migrant contractors may incur unique costs associated with closing down and starting up agency operations to match the periods of service needed by migrant families, and these unique costs may be reimbursed with the "Start-up/Close-down" allowance.

**Like** a "Start-Up" (service-level exemption) allowance, a "Start-up/Close-down" allowance is **not** extra funding, and is **not** issued as a separate check, but is simply a part of the MRA that may be reimbursed without a service requirement. *"Reimbursement for both startup and closedown costs shall not exceed 15 percent"* of the contract MRA (Education Code Section 8233(b)). The allowance is reimbursed only to the extent claimed, and the remainder of the MRA is subject to service requirements. Any unused allowance amount cannot be reserved or carried over to a subsequent fiscal year.

**Unlike** a "Start-Up" (service-level exemption) allowance, a "Start-up/Close-down" allowance is an annual contract term for part-year migrant contracts.

# INDIRECT COSTS

Indirect costs are defined as expenses *"that cannot be readily assigned to one specific program or one specific line item within a program"* (FT&C). Indirect costs are charges that would normally fall in the 1000-5000 expense categories but can't be listed under those line items because they are charges not directly attributable to the program.

**EXAMPLE:** A school uses one classroom for a half-day State Preschool program. The school's electricity bill covers the entire school, there is no separate metering by classroom, so there is no direct way to know how much electricity was actually used by the Preschool program. So the school uses an Indirect Cost Allocation Plan to prorate the electricity bill, and a small percentage of it is charged to the State Preschool program. Instead of reporting electricity as a direct "operating" expense on line 5000, the prorated amount is reported on the "Indirect Costs" line.

If you have questions about what may be included as indirect costs please contact your CPA or the Audits and Investigations Division of CDE.

"Indirect costs" is a category closely associated with Administrative costs. Administrative costs **include** any allowance for Indirect costs (FT&C). Since there is a limit on Administrative costs, contractors should reassess all costs to determine which can be attributed to direct operating expenses rather than to administrative or indirect so that the limit is not exceeded.

## LIMIT TO INDIRECT COSTS

Indirect Costs may only be claimed for legitimate charges. An indirect cost rate must be *"based on an **approved** cost allocation plan, not to exceed the rate specified in the annual child development contract"* (Title 5, Section 18034k). Child development contracts specify a maximum indirect cost rate of eight percent (8%), but *"School districts and county offices of education shall use the CDE approved rate if it is less than eight percent"* (FT&C). CDE approved rates are based on the J-380 Annual Program Cost Data report and the Standardized Account Code Structure (SACS) report, and should be available in the school administration office. Indirect costs may only be applied to expenses that would otherwise be included in the first five expenditure categories 1000-5000, salaries, supplies and operating expenses (FT&C), including provider payments for AP type programs. **DO NOT** use an indirect cost rate to calculate a maximum amount of indirect costs based on the sub-total of the first five expense categories. The indirect cost rate **LIMITS** the amount of **actual charges**: actual indirect costs claimed **may not exceed** the allowed indirect cost rate times the total amount claimed in categories 1000-5000.

## WHO MAY CLAIM INDIRECT COSTS?

Compute and report indirect costs **only** if you have a *written cost allocation plan on file*.

## REPORTING

On the CDFS Attendance and Fiscal Report, Indirect costs are to be reported on the "Indirect Costs" line under "Reimbursable Expenses" (*please fill in the rate used*) and are **also** included as Administrative costs on the "Total Administrative Cost" line below the "Total Expenses" line.

(See also "Administrative Costs")

# ADMINISTRATIVE COSTS

Contractors are required to report **all** expenses for their program, including all administrative costs. Administrative functions are defined as *"activities that do not provide a direct benefit to the children, parents, or providers"* (Title 5, Section 18034c). Administrative costs include any allowance for indirect costs and audits (FT&C). The State of California limits reimbursement of administrative costs to *"not exceed 15 percent of the funds provided"* (Education Code, Section 8276.7). Since the CDE contract does not provide funds for costs paid for by restricted income or for costs that are non-reimbursable, CDFS calculations limit reimbursement of administrative costs to 15% of **net** costs (total expenses minus restricted income and non-reimbursable costs); likewise, administrative costs for an AP program are limited by the amount of provider payments and support costs, since administrative costs cannot exceed 15% of the total funds provided. Actual administrative costs that exceed the limit will be deducted as non-reimbursable during earnings calculations.

**NOTE:** *Since the limit for administrative costs is strict, please be sure that the costs reported as administrative are purely administrative in nature.*

**EXAMPLE:** A secretary spends most of his time answering the phone, talking to parents and typing purchase orders, and part of his time typing the Attendance and Fiscal Report. Preparing the report form is purely administrative, so only that amount of his salary for his time spent on the report form should be counted as an administrative cost.

Contractors shall maintain written documentation of the rationale used in determining administrative costs (Funding Terms and Conditions).

## REPORTING

Administrative costs are included in appropriate line items under "Reimbursable Expenses" (e.g.: audit costs should be listed as "Services and Other Operating Expenses", and indirect costs are listed on the "Indirect Costs" line), and **all** administrative costs are **also** reported on the "Total Administrative Cost" line below the "Total Expenses" line.

(See also "Indirect Costs")

# REVISED REPORTS

## CORRECT – DO NOT REVISE – INTERIM REPORTS

Correcting mistakes made in reported data *during* the contract period does **NOT** require submitting a revised report. Since prior-period data is cumulative, reported data that is incorrect should simply be corrected by **adjusting** the "**Cumulative Prior Period**" column (Column A) of the *next report* for the contract period to show the correct cumulative data. Also add a note in the "Comments" section that Column A has been adjusted to correct data from the previous report, so the CDFS fiscal analyst will know that the change is intentional and not an error in preparing the report.

**Never** report **negative figures** in "Current Period" columns because doing so could adversely affect the calculations that determine apportionment amounts (negative enrollment or negative expenditures translate during computer calculations as zero enrollment or zero expenditures for the period). The "Current Period" columns should always contain ***only*** current-period data!

Agencies *may* submit revised interim reports even though they are not required. IF a revised interim report is submitted, it must be a **complete** report (see REVISED REPORT FORMAT, below).

## REVISE FINAL REPORTS

Correcting a Final Report **will** require submitting a **complete** revised report, since it is the last report received for the contract. (For most contracts, the June report is the Final Report of the contract period.) Contractors should submit a revised Final Report as soon as revised data is available. (See REVISED REPORT FORMAT, below.)

**LEAs:** Contract closure and final reimbursement calculations for an LEA is based on the Final Report, so it is vital that the information is complete and accurate. LEAs should submit a revised report, if necessary, to CDFS as soon as possible, but "*Contractors have sixty (60) days from the due date for submission of the audit to submit a revised final report*" (FT&C).

- A County Superintendent of Schools/School District audit is due on December 15th (Education Code Section 41020) so the **revised report deadline is February 13th**.
- A Community College audit is due on December 31st (FT&C) so the **revised report deadline is March 1st**.
- Contractors with an approved audit extension have 60 days from the extended due date to submit a revised report, but any revised report must **include a copy of the written approval for the extension** to verify the extended due date.

Revised reports received in CDFS after these deadlines will be rejected.

**Non-LEAs:** "Private" contractors receive a preliminary contract closure calculation based on the Final Report, or a revised Final Report, processed by CDFS approximately six weeks after the close of the contract period. After that, any revised reports will be filed but not processed because contract closure and final reimbursement calculations will be based on the contractor's audit.

## **FORMAT for REVISED REPORT**

Any revised report must be a **complete** report – all pages, completed data columns, **original signature**, etc. – ***including pages and columns that are not being changed.*** Pages not being revised may be photocopies, but if the signature page is a photocopy it must have another **original signature** for the report to be valid. Revised reports should be marked "Revised," "Amended" or "Corrected" at the top of each page. Incomplete or unsigned reports will not be accepted.

# REPORT CHECKLIST

There are a variety of Attendance and Fiscal Report forms for Child Development programs, but all have the same basic format and ***all have similar instructions.***

## PLEASE READ AND FOLLOW THE INSTRUCTIONS.

In order to expedite the processing of your report and monthly apportionment, be certain the following items are complete and correct on every report:

- ✓ **All pages** are submitted and **stapled together**
- ✓ Report period and current contract number on each page (contract number changes each fiscal year)
- ✓ County number and Vendor code on each page (refer to contract for numbers)
- ✓ Contractor name on each page (must match *agency name on the contract*, site names are **not** sufficient)
- ✓ All cumulative prior period, current period and cumulative fiscal year data
- ✓ TOTAL days/hours of enrollment
- ✓ TOTAL **adjusted** days/hours of enrollment
- ✓ Days of Operation (should not exceed days on the submitted calendar)
- ✓ Total days/hours of attendance are NOT the same as "Days of Operation"  
(**NOTE:** Total certified attendance can not exceed total certified enrollment)
- ✓ **All revenue** reported (Family Fees, interest, non-CDE income, Child Care Food, etc.) for both certified and non-certified children in the program; **exception:** do not report *Child Development contract payments*
- ✓ **All expenses** reported for both certified **and** non-certified children in the program
- ✓ Use only approved indirect cost rate; not to exceed 8%
- ✓ Columns are totaled on **all pages**
- ✓ Authorized agency designee has reviewed, dated and **signed** the report  
(**NOTE:** signature must be original, photocopies or rubber stamps are not acceptable)
- ✓ Any required supplemental forms are attached
- ✓ Be sure to keep a copy for your records

# SELF-HELP: CDFS WORKSHEETS

The following three CDFS worksheets are designed to help contractors monitor their center-based contract to determine the fiscal state of their program. CDFS worksheets are self-help technical assistance, using data that would be reported on a CDFS Attendance and Fiscal Report form. Although the earnings projection calculations sent by CDFS after review of Attendance and Fiscal Reports do provide some technical assistance, they are not the best way to monitor a program because of their obvious limitations: they are sent more than a month after the data was collected, and their primary purpose is to determine the appropriate apportionment amount based on how much of the CDE contract is expected to be earned. These CDFS worksheets have distinct advantages over CDFS projections:

- they can be done at any time throughout the year, and the sooner a contractor knows of a problem the more likely the problem can be solved;
- they provide information that CDFS contract projections do not;
- they may indicate a possible fiscal problem even if the CDE contract is being fully earned;
- they compare costs to parent fees for non-certified children, whereas CDFS contract projections only address the certified portion of the program.

The following "General" worksheets are intended for a GCTR contract using a CDFS-9500 Attendance and Fiscal Report form, and may need to be modified for other contract types (versions for "Latchkey" contracts are available from CDFS). The reverse of each worksheet is its "Notes for Use" page; if you copy a worksheet for other staff, please copy both pages.

## **CDFS WORKSHEET #1: Earning the Service Segment of the Contract**

This worksheet converts the "child days of enrollment" (cde) number to an actual head count of children, and indicates how many certified children need to be enrolled in order to earn the full contract amount.

## **CDFS WORKSHEET #2: Is Your Program Financially Healthy?**

This worksheet analyzes the program's cost per child to determine if costs are too high and/or if additional income is needed, and consists of two sections:

**Section I** calculates the actual cost per unit of service and compares it to the contract rate.

**Section II** determines whether parent fees for non-certified children are sufficient to support the non-certified portion of the program.

## **CDFS WORKSHEET #3: Determining Service To Expenditure Relationship**

This worksheet compares the program's service earnings for certified children to the program's actual costs for those children; this helps a contractor determine whether additional outside income or adjustments to expenses and/or enrollment are necessary.

**EARNING THE SERVICE SEGMENT OF THE CONTRACT**

1. Minimum Certified cde	- Adjusted cde Provided to Date	= Remaining Service (cde) Required
(a) _____	- (b) _____	= (c) _____
[(MRA + Cert. FF + Int.) / Rate]*	(for certified children)	
2. Total Operational Days	- Days Operated to Date	= Remaining Days
(a) _____	- (b) _____	= (c) _____
	(from Col. C)	
3. Remaining Service (cde) Required	/ Remaining Days	= Number of FTE** Children that need to be enrolled for the remainder of the year.
(a) _____	/ (b) _____	= (c) _____
(line 1c)	(line 2c)	
4. Currently Enrolled Children Converted to FTE:		
Days of Enrollment per Category (Section I, Col. B)	x Category's Adjustment Factor (Section I, Col. D)	= Adjusted Enrollment
(a1) _____	x (b1) _____	= (c1) _____
(a2) _____	x (b2) _____	= (c2) _____
(a3) _____	x (b3) _____	= (c3) _____
(use additional lines as needed)		
Total Adjusted Enrollment		(d) _____
5. Total Adjusted Enrollment	/ Days of Operation for the period	= Average Daily Enrollment
(a) _____	/ (b) _____	= (c) _____
(line 4d)	(from Col. B)	
6. Number of FTE Children Needed	- Average Daily Enrollment	= Additional FTE Children to be enrolled
(a) _____	- (b) _____	=
(c) _____	(line 5c)	
(line 3c)		

\* "Cert. FF" is Family Fees for certified children; "Int." is Interest earned on advanced contract funds.

\*\* "FTE" is Full-time equivalent



CDFS WORKSHEET #1 (General)  
**EARNING THE SERVICE SEGMENT OF THE CONTRACT**

NOTES for USE

The purpose of this worksheet is to convert the "child days of enrollment" (cde) number to an actual head count, and determine how many certified children need to be enrolled to earn the contract.

Line 1:

The "minimum cde" requirement on the contract face sheet is the certified cde required to earn the contract amount. Family Fees for certified children and Interest earned on advanced contract funds are considered additional program income that can affect contract reimbursement. Contractors who want to earn the full contract amount as well as use Family Fees and Interest earnings must add these annual amounts to the contract MRA, and divide by the contract rate, to determine an "adjusted" minimum certified cde requirement. (Annual amounts of Family Fees and Interest may be estimated by using the prior year's total amounts, or may be projected by using current actual amounts multiplied by a projection factor based on days operated.)

For Line 1b, contracts that are allowed enrollment adjustments should use certified data from Column E of their report form, and contracts that do not have enrollment adjustments (GPPE, GWAP and GHAN) should use certified data from Column C of their report form.

Line 2:

"Total Operational Days" is usually the same as "Minimum Days of Operation" (MDO) from your contract face sheet, but may vary if your actual days of operation differ from the MDO.

Line 3:

"FTE" means "Full-time equivalent". Example: in a program that has both full-time and half-time children enrolled, two half-time children equal one full-time child.

Line 4:

This line calculates the current FTE enrollment in the month or period being monitored, by adjusting the current enrollment data from Column B of the Attendance and Fiscal Report in the same way the report form adjusts cumulative year-to-date data from Column C.

Contracts that are not allowed enrollment adjustments (GPPE, GWAP and GHAN) should use and adjustment factor of one (1) because "Total Adjusted Enrollment" for this worksheet will be the same as "Days of Enrollment" for the period from Column B of their report.

Line 6:

If Line 6c is zero or a negative number, then your current enrollment is sufficient to earn the contract amount.

If Line 6c is a fractional number (e.g., "2.3"), keep in mind that you cannot enroll "half" a child unless you are serving a part-day program. In most cases, round up to the next whole number (in this case, "3") to determine how many additional children need to be enrolled.

Also keep in mind that this line indicates additional children that must be enrolled **in order to earn the full contract amount**. In reality, your program may not be able to enroll additional children because of your licensed capacity or some other reason, or you may not be able to enroll additional children without incurring additional costs. Furthermore, there is no requirement that a contractor earn the full contract amount; but it is important for contractors to spend within their income. If you cannot enroll additional children, you must carefully monitor expenses so they do not exceed the income you will receive for the children you are able to serve (see Worksheets #2 and #3).

**IS YOUR PROGRAM FINANCIALLY HEALTHY?**

**Section I: UNIT COST & CONTRACT RATE COMPARISON**

1. Total Allowable Costs - Restricted Program Income = Net Allowable Costs  
(a) \_\_\_\_\_ - (b) \_\_\_\_\_ = (c) \_\_\_\_\_  
(Total minus nonreimbursable)\* (include Transfer from Reserve)\*
2. Net Allowable Costs / Total Adjusted CDE = Actual Cost Per Unit of Service  
(a) \_\_\_\_\_ / (b) \_\_\_\_\_ = (c) \_\_\_\_\_  
(line 1c) (certified + non-certified)\*
3. Contract Rate - Actual Unit Cost = Surplus (+) or Deficit (-)  
(a) \_\_\_\_\_ - (b) \_\_\_\_\_ = (c) \_\_\_\_\_  
(contract) (line 2c)

If line 3c is a negative figure (a deficit) your costs are too high: *you must cut costs or secure additional funding*. If line 3c is a positive figure (a surplus) or zero, you should continue to monitor expenditure levels to maintain costs at or below the contract Rate.

**NOTE:** Even if your costs are within the contract Rate, you still need to compare certified expenditures to the MRA because *your service earnings may exceed the amount that can be reimbursed* by the contract (see WORKSHEETS #1 and #3).

**Section II: NON-CERTIFIED SEGMENT OF PROGRAM**

4. Actual Cost per Unit of Service x Adjusted CDE for Non-certified Children = Actual Cost for Non-Certified Children  
(a) \_\_\_\_\_ x (b) \_\_\_\_\_ = (c) \_\_\_\_\_  
(line 2c) (from Col. E)
5. Parent Fees for Non-Certified - Actual Cost for Non-Certified = Surplus (+) or Deficit (-)  
(a) \_\_\_\_\_ - (b) \_\_\_\_\_ = (c) \_\_\_\_\_  
(from Col. C) (line 4c)

If 5c is a negative figure (a deficit), then *you are not collecting sufficient parent fees to support your non-certified children*, and additional parent fees or other non-restricted income is needed. If 3c and 5c are both negative, *you may also need to reduce costs*.

\* On pages 1 and 2 (enrollment pages) of the CDFS 9500 report form use Column E for data; on page 3 (fiscal page) use Column C.

CDFS WORKSHEET #2 (General)  
**IS YOUR PROGRAM FINANCIALLY HEALTHY?**

NOTES for USE

The purpose of this worksheet is to analyze the cost per child to determine if costs are too high and/or if additional income is needed to fund the program. "Unit" usually means a child day of enrollment (cde); however, some contracts have an hourly rate rather than a daily rate, and their unit would be a child hour of enrollment (che).

Line 1:

From total costs you must first subtract non-reimbursable costs to determine "Total Allowable Costs" on Line 1a, and then subtract all "Restricted Program Income" (including any "Transfer from Reserve Fund") on Line 1b to determine "Net Allowable Costs."

Line 2:

"Net Allowable Costs" for the program are divided by total adjusted enrollment, both certified plus non-certified enrollment, to determine "Actual Cost per Unit of Service." For Line 2b, contracts that are allowed enrollment adjustments should use data from Column E of their report form, and contracts that do not have enrollment adjustments (GPPE, GWAP and GHAN) should use data from Column C of their report form.

Line 3:

If Line 3c is zero or a positive number (a surplus), then your actual costs per child are within the contract rate. However, you will still need to monitor total costs so you do not spend more than your income (see Worksheet #3).

If Line 3c results in a negative (a deficit), you need additional funding to support your program or you must reduce your costs (see Worksheet #3). However, contractors with "non-restricted" income may already have sufficient additional funding.

Line 4:

The same unit cost from Line 2c is used because all children in the program, both certified and non-certified, are treated equally. This line calculates the total cost for the non-certified portion of the program.

Line 5:

If Line 5c results in a negative (deficit), then you are not collecting sufficient parent fees from non-certified (or "full-fee paying") families to support the non-certified portion of your program. If you do not have other non-restricted income to cover these costs you will have to obtain additional outside income or reduce costs, or both.

## DETERMINING SERVICE TO EXPENDITURE RELATIONSHIP

$$1. \text{ Adjusted Certified CDE to Date} \quad \times \quad \text{Daily Rate} \quad = \quad \text{Service Earnings}$$

(a) \_\_\_\_\_ x (b) \_\_\_\_\_ = (c) \_\_\_\_\_  
(from Col. E) (contract)

$$2. \text{ Expenditures} \quad - \text{ Restricted Program Income} \quad = \text{ Net Expenditures}$$

(a) \_\_\_\_\_ - (b) \_\_\_\_\_ = (c) \_\_\_\_\_  
(Total minus nonreimbursable)\* (include Transfer from Reserve)\*

3. Prorate Expenditures between subsidized and non-subsidized children in the program:

$$\text{[Adj certified CDE / Total adj CDE]} \times \text{Net Expenditures} = \text{Net Expenditures for Certified children}$$

(a)  $\frac{\text{[ ]}}{(\text{certified})^* / (\text{certified} + \text{non-certified})^*}$  x (b)  $\frac{\text{[ ]}}{(\text{line 2c})}$  = (c) \_\_\_\_\_

4. Service Earnings - Net Certified Expenditures = Surplus (+) or Deficit (-)

(a) \_\_\_\_\_ - (b) \_\_\_\_\_ = (c) \_\_\_\_\_  
(line 1c) (line 3c)

If line 4c is a positive figure (a surplus), then your costs are being covered by your service earnings. However, you may be providing more services than required, thereby generating costs in excess of your MRA; *the excess would require funding from another source.*

If line 4c is a negative figure (a deficit), then your costs are not being covered by your service earnings and *cost and/or earnings adjustments or additional income is necessary*. The four possible solutions, depending on you situation, are:

1. Cut costs while retaining current enrollment.
2. Hold costs constant while increasing enrollment.
3. Collect additional outside income.
4. A combination of the above.

\* On pages 1 and 2 (enrollment pages) of the CDFS 9500 report form use Column E for data; on page 3 (fiscal page) use Column C.

CDFS WORKSHEET #3 (General)  
**DETERMINING SERVICE TO EXPENDITURE RELATIONSHIP**

NOTES for USE

The purpose of this worksheet is to compare service earnings for certified children to the actual costs for those children, and determine if additional outside income or adjustments to expenses and/or enrollment is necessary for the program.

Line 1:

This line calculates total service earnings to date by multiplying the total certified enrollment times the contract rate. For Line 1a, contracts that are allowed enrollment adjustments should use data from Column E of their report form, and contracts that do not have enrollment adjustments (GPRE, GWAP and GHAN) should use data from Column C of their report form.

Line 2:

From total costs you must first subtract non-reimbursable costs to determine "Expenditures" on Line 2a, then subtract all "Restricted Program Income" (including any "Transfer from Reserve Fund") on Line 2b to determine "Net Expenditures" on Line 2c.

Line 3:

Since the Child Development contract only supports the certified portion of your program, this line prorates "Net Expenditures" to determine the amount allotted to certified children. Line 3a calculates the percentage of certified children in the program by dividing the certified enrollment by total enrollment (certified plus non-certified), and this certified percentage is multiplied by "Net Expenditures" on Line 3b to determine "Net Expenditures for Certified Children" on Line 3c.

For Line 3a, contracts that are allowed enrollment adjustments should use data from Column E of their report form, and contracts that do not have enrollment adjustments (GPRE, GWAP and GHAN) should use data from Column C of their report form.

Line 4:

If Line 4c is zero or a positive number (a surplus), then your service earnings are sufficient to cover your costs for certified children. HOWEVER, if you are serving more certified children than your contract can support you will need additional outside income.

If Line 4c is a negative (a deficit), then your service earnings are NOT sufficient to cover your costs for certified children. If you do not have additional outside income to cover the excess costs, then cost reductions and/or enrollment increases are necessary.

**NOTE re NON-CERTIFIED CHILDREN:**

Programs serving non-certified children can also use this worksheet to determine the surplus or deficit for the non-certified portion of their program: simply use non-certified enrollment on Line 1a, and on Line 3a use the non-certified percentage of the prorated enrollment.

# ADVANCE APPORTIONMENTS

Child Development contracts allow reimbursement to be advanced to contractors in monthly apportionments. CDFS is responsible for generating apportionment amounts. CDFS reports the apportionment amounts to the Accounting Office, the Accounting Office schedules them for payment with the Controller's Office, and the Controller's Office produces and mails the checks. Apportionments are withheld by CDFS due to delinquent reports, delinquent prior year audits (per the Audit and Investigations Division), delinquent account receivables (per the Accounting Office) or any delinquent list or special withhold instructions per the Child Development Division, according to Title 5, Section 18056(a). (See "Apportionment Notifications")

**NOTE:** NO advance apportionment can be made until the contract is signed and executed by the Contracts Office.

## DETERMINING APPORTIONMENTS

Each month's "normal" apportionment is a fixed percentage of the contract's MRA (see "CDFS Apportionment Schedules"), but apportionment amounts may be lower according to projection calculations based on data from the latest Attendance and Fiscal Report. July through September advances are determined by the Apportionment Schedules, and may be paid as a single check. Beginning with the October advance, apportionments for contracts on Conditional or Provisional status are determined by projections. Beginning with the **December** advance, apportionments for **all contracts** are determined by projections. Because of the different times that reports may be received, apportionments for different contracts may be determined by different reports (e.g., a January apportionment may be based on a September report for one contract but based on an October report for another contract). Contractors on Clear status may choose to submit additional monthly reports for more accurate projection calculations.

Projection calculations are intended to produce a flow of funds that corresponds to the amount the contractor will actually earn through the end of the contract period. Ideally, the final calculation will indicate a reimbursement amount equal to the total apportionments advanced, so at the end of the fiscal year when the contract is closed there will be no payment owed to a contractor and no billing for over-advanced funds owed to the State. However, since final reimbursement calculations may **not** match total advances, contract closure may result in an additional payment (especially for contractors with a Reserve Account) or in a billing for unearned contract funds. When an amount is billed, contractors are responsible for returning that amount to the CDE even if they must use their own funds because they have incorrectly spent CDE contract funds. *Contractors should closely monitor expenditures and service levels so they **do not spend** more than they will earn.*

## CALCULATING PROJECTED APPORTIONMENTS

Earnings projection calculations use reported data to **predict** contract earnings through the end of the fiscal year. Total reimbursable costs and service-level earnings are projected by multiplying reported data by a "projection factor" derived from the days operated compared to the contract MDO (contracts without an MDO are projected based on *months* operated). The lesser of projected costs or service-level earnings is then reduced by projected Family Fees and/or interest, increased by varying "flex" factors, and compared to the MRA to arrive at an adjusted projected FY reimbursable earnings. The apportionment for any particular month is this adjusted projected FY reimbursable earnings multiplied by the maximum cumulative percentage for that month (see "CDFS Apportionment Schedules") minus apportionments paid to date. (See "Projecting Your Earnings")

# PROJECTING YOUR EARNINGS

The form on the following page, CDFS-9503, is an example of an Earnings Projection worksheet similar to the one CDFS uses during the contract period to determine **projected** earnings and the appropriate apportionment amount. Calculations are based on the information from the Attendance and Fiscal Reports, the contract terms, and the amount of State contract funds previously advanced (line 26, "Apportionments to date"). The CDFS calculation sheet is computer generated, but this manual version follows the same format and shows the calculation steps that determine a projected earnings level and the amount to be apportioned. (NOTE: this manual worksheet is for most center-based program types such as General Center-based programs and State Preschool; other program types such as "Latchkey" and AP utilize different worksheets.) The earnings projection calculation may result in a temporary reduction of the apportionment amount (Title 5, Section 18056), but does not change the contract MRA. Likewise, projections may cause an over-advancing of funds, which will result in a billing for unearned contract funds when the contract is closed.

**NOTE:** The calculated apportionment amount is for a particular month, regardless of apportionments being advanced on a monthly or quarterly schedule.

## ATTENDANCE FLEX FACTORS

Contracts with a service requirement generate service-level earnings based on enrollment, but those service-level earnings will be reduced due to low attendance. However, a 5% adjustment or "flex factor" is allowed for attendance: on line 19, the calculation adds 5% to actual attendance percentage to create an adjusted attendance percentage, not to exceed 100%. Thus, only contracts with less than 95% actual attendance percentage will have service-level earnings reduced.

## PROJECTION FLEX FACTORS

For most of the year, projection calculations temporarily increase a program's projected fiscal year earnings by adding a set percentage of the MRA as a "flex factor" (line 25, "flex % of MRA"); this adjustment "for variance" allows for the possibility that early reports may be incomplete. The percentage or "flex factor" decreases during the year as more accurate "Cumulative" period data is included in the calculations. The projection flex factors used each month are:

Report Month	"Latchkey" Programs	All Other Programs
July / August	10 %	7 %
<b>SEPTEMBER</b>	10 %	7 %
October	9 %	7 %
November	8 %	7 %
<b>DECEMBER</b>	6 %	7 %
January	4 %	7 %
February	2 %	4 %
<b>MARCH</b>	0 %	2 %
April / May	0 %	0 %
<b>JUNE</b> (Final Report)	n/a	n/a

## CALCULATING APPORTIONMENTS

On line 28 the equation multiplies by a "maximum Cumulative percentage": this percentage for the apportionment month is found in the CDFS Apportionment Schedules.

California Department of Education  
CHILD DEVELOPMENT FISCAL SERVICES  
CDFS9503 (Rev. 5/02)

GENERAL (INCLUDES START-UP)  
EARNINGS PROJECTION FY: \_\_\_\_\_

CONTRACT NO.: \_\_\_\_\_

REPORT MONTH: \_\_\_\_\_

PROJECT NO.: \_\_\_\_ - \_\_\_\_ - \_\_\_\_ - \_\_\_\_

APPORTIONMENT MO: \_\_\_\_\_

AGENCY NAME: \_\_\_\_\_

CDFS ANALYST: \_\_\_\_\_

DATE: \_\_\_\_\_

1. Total cost (includes Start-Up), from report	\$ _____	
2. A. Restricted income (Program), from report	\$ _____	
B. Transfer from Child Development Reserve Fund	\$ _____	
3. Non-reimbursable cost, from report	\$ _____	
4. Net cost (line 1 - (line 2A + line 3))	\$ _____	
5. Administrative cost		
A. Reported	\$ _____	
B. Maximum Allowable (line 4 x 15%)	\$ _____	
C. Excess (line 5A - line 5B; if less than 0, use 0)	\$ _____	
6. Adjusted Child Days of Enrollment (CDE)		
A. Certified CDE, from report	_____	
B. Total CDE, from report	_____	
C. Percent Certified (line 6A / line 6B)	_____	%
7. Start-Up cost		
A. Reported	\$ _____	
B. Maximum Start-Up (per contract)	\$ _____	START-UP
C. Allowable (lesser of line 7A or line 7B)	\$ _____	
8. Adjusted net cost (line 4 - (line 5C + line 7A))	\$ _____	
9. Net reimbursable cost (line 6C x line 8)	\$ _____	
10. Actual Days of Operation to date, from report	_____	
11. Minimum Days of Operation required (per contract)	_____	MDO
12. FY projection factor (line 11 / line 10)	_____	
13. Projected FY net reimbursable cost ((line 9 x line 12) + line 7C - line 2B)	\$ _____	
<hr/>		
14. Maximum Reimbursable Amount (per contract)	\$ _____	MRA
15. Contract Rate (per contract)	\$ _____	RATE
16. Actual earnings by CDE (line 6A x line 15)	\$ _____	
17. Projected FY earnings by CDE (line 16 x line 12)	\$ _____	
18. Attendance percentage (Attendance / Enrollment)	_____	%
19. Attendance flex. factor (line 18 + 5%; if greater than 100%, use 100%)	_____	%
20. Projected CDE earnings adjusted for attendance ((line 19 x line 17) + line 7C)	\$ _____	
<hr/>		
21. Projected FY reimbursable costs (lesser of lines 13 or 20)	\$ _____	
22. Subsidized Family Fees + Interest income to date, from report	\$ _____	
23. Projected FY subsidized Family Fees + Interest income (line 22 x line 12)	\$ _____	
24A. Projected FY earnings (line 21 - line 23)	\$ _____	A.
B. Proj. FY reimbursable earnings (lesser of lines 24A or 14)	\$ _____	B.
25. Projected FY reimbursable earnings adjusted for variance (lesser of (flex ____% of MRA + line 24B) or line 14)	\$ _____	
26. Apportionments to date	\$ _____	
27. Projected Percentage of Contract Earnings (line 25 divided by line 14)	_____	%
28. Calculated Apportionment (line 25 x maximum Cumulative percentage - line 26)	\$ _____	



# APPORTIONMENT NOTIFICATIONS

CDFS may correspond with contractors during the course of the fiscal year regarding apportionments using the following form letters:

## APPORTIONMENT ADJUSTMENT LETTER – CDFS 3600

An Apportionment Adjustment Letter is sent when apportionments are reduced because projected fiscal year earnings calculations, based on the latest Attendance and Fiscal Report data, indicate that projected reimbursement will be less than the contract MRA. The Apportionment Adjustment Letter includes a CDFS Earnings Projection calculation worksheet showing the reduced monthly apportionment amount. An adjustment letter does **not** change the contract MRA. Projected earnings are re-calculated with subsequent Attendance and Fiscal Reports, and if subsequent projected earnings return to a normal level (100% of the MRA) the contractor will again be advanced funds according to the CDFS Apportionment Schedules.

**NOTE:** An Apportionment Adjustment Letter is also a warning to the contractor that there *may* be a fiscal or enrollment problem. Contractors should especially compare projected earnings to projected costs, as higher projected costs may indicate that the contractor is over-spending or is under-enrolled in the certified portion of its program.

## APPORTIONMENT WITHHOLD NOTICE – CDFS 3605

An Apportionment Withhold Notice is sent when an apportionment is entirely withheld due to the contractor's failure to comply with a contract requirement (e.g., delinquent report, delinquent audit, outstanding accounts receivable, etc.) per Title 5, Section 18056. This notice does **not** change the contract MRA. Advance apportionments will resume after the problem has been corrected. A contractor may receive *both* an Apportionment Adjustment Letter (indicating the apportionment amount is being reduced) and an Apportionment Withhold Notice (indicating the apportionment is being withheld) for the same month.

**NOTE:** Contractors are responsible for paying their operational expenses even if an apportionment is withheld, and contractors should have at least three months of operating capital available for such an occurrence. **If** an apportionment is withheld due to a mistake on the part of the State, and **if** because of that the contractor needs to borrow from a financial institution in order to pay its bills, then the interest on that loan is considered a reimbursable expense (see contract FT&C). However, this does **not** increase the contract MRA.

## PRELIMINARY REVIEW LETTER – CDFS 3610

A Preliminary Review letter is sent when projected fiscal year earnings calculations, based on a quarterly Attendance and Fiscal Report, indicate the contract will earn the full contract MRA. This letter includes a CDFS Earnings Projection calculation worksheet that should be reviewed by the contractor for possible over-spending or under-enrollment problems, because a program can earn the full contract MRA and *still have fiscal problems* that need to be addressed.

## CDFS APPORTIONMENT SCHEDULES

MONTH ADVANCE IS RECEIVED	FULL-YEAR CHILD DEVELOPMENT PROGRAMS MAXIMUM ADVANCE PAYMENT PERCENTAGES							
	GENERAL		"LATCHKEY"		PRESCHOOL		FEDERAL	
	% OF MRA	Cumulative	% OF MRA	Cumulative	% OF MRA	Cumulative	% OF MRA	Cumulative
JULY	12.5%	12.5%	20%	20%	7.5%	7.5%	8.3%	8.3%
AUGUST	12.5%	25%	20%	40%	7.5%	15%	8.3%	16.6%
SEPTEMBER	7.5%	32.5%	6%	46%	8.5%	23.5%	8.4%	25.0%
OCTOBER	7.5%	40%	6%	52%	8.5%	32%	8.3%	33.3%
NOVEMBER	7.5%	47.5%	6%	58%	8.5%	40.5%	8.3%	41.6%
DECEMBER	7.5%	55%	6%	64%	8.5%	49%	8.4%	50%
JANUARY	7.5%	62.5%	6%	70%	8.5%	57.5%	8.3%	58.3%
FEBRUARY	7.5%	70%	6%	76%	8.5%	66%	8.3%	66.6%
MARCH	7.5%	77.5%	6%	82%	8.5%	74.5%	8.4%	75%
APRIL	7.5%	85%	6%	88%	8.5%	83%	8.3%	83.3%
MAY	7.5%	92.5%	6%	94%	8.5%	91.5%	8.3%	91.6%
JUNE	7.5%	100%	6%	100%	8.5%	100%	8.4%	100%

### NOTES:

- Advance apportionments are usually received in the first ten days of the month.
- This chart shows the maximum percentages that may be apportioned each month; actual amounts may be lower based on earnings projections. (See "Advance Apportionments")
- These schedules do **NOT** apply to CalWORKs contracts. (See "CalWORKs Reimbursements")

## CDFS APPORTIONMENT SCHEDULES

MONTH ADVANCE IS RECEIVED	PART-YEAR CHILD DEVELOPMENT PROGRAMS MAXIMUM ADVANCE PAYMENT PERCENTAGES			
	PART-YEAR MIGRANT		PART-YEAR MIGRANT SPECIAL SERVICES	
	% OF MRA	Cumulative	% OF MRA	Cumulative
JULY	24.5%	24.5%	20%	20%
AUGUST	17%	41.5%	20%	40%
SEPTEMBER	17%	58.5%	20%	60%
OCTOBER	12.75%	71.25%	15%	75%
NOVEMBER	0	71.25%	0	75%
DECEMBER	0	71.25%	0	75%
JANUARY	0	71.25%	0	75%
FEBRUARY	0	71.25%	0	75%
MARCH	12.85%	84.1%	6.25%	81.25%
APRIL	5.3%	89.4%	6.25%	87.5%
MAY	5.3%	94.7%	6.25%	93.75%
JUNE	5.3%	100%	6.25%	100%

### NOTES:

- Advance apportionments are usually received in the first ten days of the month.
- This chart shows the maximum percentages that may be apportioned each month; actual amounts may be lower based on earnings projections. (See "Advance Apportionments")
- Part-Year (seasonal) Migrant maximum advance payment percentages are somewhat irregular because they include allowances for Start-up/Close-down. Part-Year Migrant contractors do not receive apportionments from November through February.

# LIMITS OF REIMBURSEMENT: CENTER-BASED

Contract reimbursement is limited to the least of the following, per Title 5, Section 18054:

- > the contract **Maximum Reimbursable Amount** (MRA);
- OR > the **net reimbursable program cost** for subsidized children (called "costs");
- OR > the product of **certified enrollment times the contract rate, times the actual percentage of attendance plus 5%** (called "service earnings").

Calculations of net costs and service earnings will subtract subsidized Family Fees and Interest earned on advanced contract funds, per Title 5, Section 18057. "Latchkey" programs have two additional limits (See "Limits of Reimbursement: "Latchkey"").

**NOTE:** *Earning the full contract amount is not required. What **is** important, from a fiscal standpoint, is that program costs are covered by sufficient income.*

## COSTS

The CDE contract only subsidizes certified children in the program. The costs for certified children are determined by a proration based on enrollment. Equity dictates that all children in the program receive comparable services and costs regardless of the funding source.

<b>EXAMPLE:</b>	\$201,234	total program expenditures
	- \$4,455	minus restricted income
	<u>\$196,779</u>	net costs
	x 0.6	enrollment in this program is 60% certified
	<u>\$118,067</u>	adjusted net costs for subsidized children
	- \$775	minus subsidized Family Fees and Interest
	<u>\$117,292</u>	TOTAL Net Reimbursable Costs

In this example, if the contract MRA is \$100,000 then the program has sufficient costs to claim the full contract amount – however, the excess \$17,292 costs for subsidized children must be covered by additional income outside the CDE contract. If the MRA is \$120,000 then the program is not able to claim the full contract amount but *does* have sufficient reimbursement income to cover all of its \$117,292 costs for subsidized children (**IF** service earnings at least equal costs, see below).

## SERVICE EARNINGS

Subsidized service earnings are the adjusted certified enrollment multiplied by the contract rate and multiplied by the adjusted attendance percentage.

<b>EXAMPLE:</b>	5,432	adjusted certified child days of enrollment (cde)
	x \$20	daily rate
	<u>\$108,640</u>	subsidized cde service earnings
	x 1	adjusted attendance is 100%
	<u>\$108,640</u>	adjusted subsidized cde service earnings
	- \$775	minus subsidized Family Fees and Interest
	<u>\$107,865</u>	TOTAL Reimbursable FY Service Earnings

In this example, if the contract MRA is \$100,000 then the program has sufficient service earnings to earn the full contract amount. If the MRA is \$120,000 then the program has low certified enrollment and is not able to earn the full contract amount – and *if the contractor has spent \$117,292* (as in the COSTS example, above) then the \$107,865 reimbursement income is not sufficient and the excess \$9,427 in costs for subsidized children must be covered by additional income from a source other than the CDE contract.

# LIMITS OF REIMBURSEMENT: "LATCHKEY"

"Latchkey" contract reimbursement is limited to the least of the following:

- > the contract **Maximum Reimbursable Amount** (MRA);
- OR > the **net reimbursable program cost** for subsidized children (called "costs");
- OR > the product of **certified enrollment times the contract rate, times the actual percentage of attendance plus 5%** (called "service earnings").

(Title 5, Section 18054)

- OR > **50% of total net program costs;**
- OR > **50% of the assigned reimbursement rate multiplied by the total units of services provided.**

(Education Code, Section 8473)

Education Code Section 8473 limits State subsidy of a School Age Community Child Care ("Latchkey") program to *"no more than 50 percent"* of the program's total costs or total service earnings. These additional limits to reimbursement are sometimes referred to as "participation limits" because they define certified participation in the "Latchkey" program. Regardless of being limited to 50% of total program costs or services, the certified portion of the program must still comply with the regulations regarding Family Fees and interest, per Title 5, Section 18057. "Latchkey" contractors may apply to CDD for a waiver of the 50% participation limits if they can show that their demographics result in a scarcity of families that are able to pay the full fee for child care. These "Latchkey" waivers must be requested on an **annual** basis. "Latchkey" contracts approved for a waiver of the 50% limitations will be subject to the first three limits in the same way as any other center-based program. (See also "Limits of Reimbursement: Center-based")

**EXAMPLE:** The following example supplements the examples for "Limits of Reimbursement: Center-based" to illustrate the effects of the two additional "Latchkey" 50% participation limits on a program with subsidized enrollment that exceeds 50% (the center-based examples were calculated at 60% subsidized enrollment, and had costs of \$117,292 for subsidized children). In this example, the program would not earn the full MRA, CDE contract reimbursement would be limited to **\$89,755** reimbursable service earnings, and the contractor would need \$27,537 additional income to cover costs for subsidized children:

## 50% of TOTAL COSTS

\$201,234	total program expenditures
- \$4,455	minus restricted income
<u>\$196,779</u>	total net costs
x 0.5	50% of total program costs
<u>\$ 98,390</u>	net program costs
- \$775	minus subsidized Family Fees and Interest
<u>\$ 97,615</u>	TOTAL Net Reimbursable Costs

(NOTE: this is less than the \$117,292 subsidized calculation)

## 50% of TOTAL SERVICE EARNINGS

9,053	adjusted TOTAL child days of enrollment (cde)
x \$20	daily rate
<u>\$181,060</u>	cde service earnings
x 0.5	50% of total service earnings
<u>\$ 90,530</u>	net service earnings
- \$775	minus subsidized Family Fees and Interest
<u>\$ 89,755</u>	TOTAL Reimbursable Service Earnings

(NOTE: this is less than the \$107,865 subsidized calculation)

## LIMITS OF REIMBURSEMENT: ALTERNATIVE PAYMENT and FAMILY CHILD CARE HOMES

Alternative Payment (AP) and Family Child Care Homes contract reimbursement is limited to the lesser of the following:

- > the contract **Maximum Reimbursable Amount** (MRA);
- OR > the amount earned.  
(Funding Terms and Conditions.)

Per the State Budget Act, AP and Family Child Care Homes contracts do not specify a rate but instead use the Regional Market Rate (RMR) Survey to limit the rates the contractor pays to child care providers. Please refer to Title 5 regulations (beginning with Section 18074) to determine appropriate provider payments.

In addition to provider payments, AP and Family Child Care Homes contracts specify maximum percentages allowed for Administrative (15% per Education Code Section 8276.7) and Support costs. However, since these contracts require a minimum percentage of total reimbursable costs to be provider payments, the actual reimbursable amount allowed for Administrative and for Support costs is limited to a percentage of those provider payments or actual costs, whichever is less. Therefore, the "amount earned" consists of direct provider payments plus appropriate amounts for Administrative and Support costs; and for contract reimbursement calculations, reductions for Family Fees and Interest also apply per Title 5, Section 18057.

**EXAMPLE:** An AP contract has an MRA of \$200,000. The contractor spends \$23,000 on Administrative costs and \$12,000 on Support costs, both within the maximums allowed by the contract terms; however, the contractor only spends \$81,000 in payments to providers. Since those *provider payments must be at least 81%* of the total reimbursement, total CDE reimbursement is limited to the "amount earned" of \$100,000, of which only \$15,000 can be allowed for Administrative costs leaving \$4,000 for Support costs – and leaving the contractor with *the remaining \$16,000 of Administrative and Support costs* to be paid for with some other non-State income.

### ALTERNATIVE PAYMENT PROGRAMS (including CalWORKs) – 81%/19%

At least 81% of reimbursement must be provider payments, with a maximum of 19% for Administrative and Support combined (Administrative costs are limited to 15%). This means that Administrative & Support is limited to actual costs or to **23.4567% of provider payments**, whichever is less. (See also "CalWORKs Reimbursements")

### FAMILY CHILD CARE HOMES PROGRAMS – 70%/30%

At least 70% of reimbursement must be provider payments, with a maximum of 30% for Administrative and Support combined (Administrative costs are limited to 15%). This means that Administrative & Support is limited to actual costs or to **42.857% of provider payments**, whichever is less.

## LIMITS OF REIMBURSEMENT: R&R, MSS and CHILD DEVELOPMENT SUPPORT

Some Child Development contracts do not have service requirements or rates but are essentially expenditure-only contracts. The most common examples of these are Resource & Referral contracts, Migrant Special Services contracts and most Child Development Support contracts.

### RESOURCE & REFERRAL

Resource & Referral (R&R) contract reimbursement is limited to the lesser of the following:

- > the contract **Maximum Reimbursable Amount** (MRA);
- OR > the net reimbursable program costs.  
(Title 5, Section 18054(b))

### MIGRANT SPECIAL SERVICES (MSS)

In addition to general program requirements, migrant child care and development programs are required to provide special services including bilingual staff, liaison between agency and community organizations, health and dental screening and follow-up treatment (Education Code Section 8232). For more details, refer to the Migrant FT&C. Migrant contractors may receive a separate Migrant Special Services (MSS) contract for the costs of these special services.

MSS contract reimbursement is limited to the lesser of the following:

- > the contract **Maximum Reimbursable Amount** (MRA);
- OR > the net reimbursable program costs.

### CHILD DEVELOPMENT SUPPORT CONTRACTS

Support contracts supplement service-related contracts, or otherwise support the child development community. These are often referred to as "one-time-only" contracts because for most of the program types the funding is not ongoing but varies in amount and availability from year to year according to the State Budget Act. (See "Contract Numbers")

Support contract reimbursement is limited to the lesser of the following:

- > the contract **Maximum Reimbursable Amount** (MRA);
- OR > the net reimbursable program costs.

# PRORATION OF COSTS

CDE Child Development programs provide "*subsidized child care and development services ... to persons meeting the eligibility criteria*" (Education Code Section 8202a). Services for each child in a program, whether subsidized (certified) or non-subsidized (non-certified), are to be equitable regardless of the funding source. To ensure equality of program services, CDFS determines program costs for certified children by prorating the total costs of the program, using reported enrollment to determine the percentage of costs applicable. Since the CDE contract only pays for the certified portion of the program, contractors must collect sufficient outside income to support the non-certified portion of their program.

The percentage of certified enrollment is determined by dividing the adjusted certified enrollment by the adjusted total enrollment. ("Adjusted" in this case means enrollment that has been multiplied by any appropriate part-day or special criteria adjustment factors.) For commingled programs with more than one CDE contract, when calculating any one contract the certified enrollment from the other contract(s) is included in total enrollment along with non-certified enrollment; in this way the certified enrollment of the contract being calculated is an accurate percentage of the program's total enrollment.

## REMEMBER:

- Contractors are not required to earn the full contract amount, but reimbursement may be limited by the prorated actual costs. Not earning the full MRA of the contract is not a problem *unless program expenses are greater than earned reimbursement*. If expenses exceed reimbursement, contractors must have sufficient other income to cover those expenses.
- When determining reimbursement for a particular contract, children who are subsidized by another contract or other funding source are calculated as non-subsidized or non-certified.
- *Reimbursable costs are only one of the limits to reimbursement* (see "Limits of Reimbursement").

(See also "Over-enrollment")

## INSUFFICIENT NONCERTIFIED INCOME

Since the CDE contract only pays for certified children as determined by proration, a contractor must collect enough income through non-certified parent fees or other sources to support the prorated expenditures of non-certified children enrolled in the program. A contractor who fails to spend enough on non-certified children may not earn the entire CDE contract amount.

**EXAMPLE:** A CDE contract of \$100,000 is funding a program that is 50% certified. In order for the program to have sufficient reimbursable costs to earn the MRA of \$100,000 it will have to spend at least \$200,000 on the entire program (\$200,000 prorated by 50% is \$100,000). This means the contractor will have to collect and spend at least \$100,000 for the non-certified portion of the program.



# OVER-ENROLLMENT

Over-enrollment means the program is providing more certified service units than required by the contract. Contracts state a service requirement (cde or che) as a minimum required to earn the contract MRA. It is fiscally acceptable to serve more than the minimum, but the contractor will not be reimbursed for more than the contract MRA. Expanding certified services at no additional cost has the effect of lowering the actual cost for certified children below the contract rate.

## EXAMPLE 1:

contract MRA = \$100,000; daily rate = \$20; minimum cde required = 5,000.

Suppose this program served 5,000 cde, collected no Family Fees or interest income, and spent \$100,000: the service-level earnings would be \$100,000 (5,000 x \$20 minus 0 Family Fees and interest). The contractor earned the contract MRA by both services and costs.

If the program served 6,000 cde, the service-level earnings would be \$120,000 (6,000 x \$20 minus 0 Family Fees and interest) and the contractor would still have earned in services the contract MRA.

**NOTE:** With expenditures still at \$100,000 the *actual cost* for certified children is \$16.66/day ( $\$100,000 \div 6,000 = \$16.66$ ) instead of the \$20/day contract rate.

## COMMINGLED CONTRACTS

Lowering actual costs is not a problem for a program with a single contract, but may create a financial problem in programs with commingled contracts *if the costs are not the same for both contracts*. Using the above example, a program that has two contracts and over-enrolls in one but not in the second will be unable to earn the full contract amount of the second. This is because equality of program services is ensured by prorating program costs among all the children in the program (see also "Proration of Costs").

## EXAMPLE 2:

contract A: MRA = \$100,000; daily rate = \$20; minimum cde required = 5,000.

contract B: MRA = \$100,000; daily rate = \$20; minimum cde required = 5,000.

Suppose contract A actually serves 6,000 cde (as in Example 1) while contract B serves the required 5,000 cde, and total program expenses are \$200,000. Both contracts earn the MRA in service levels, because both have met the required minimum cde. However, contract B will not earn enough ***in costs*** because the proration for contract B is less than 50%. (5,000 cde  $\div$  11,000 **TOTAL** cde = 45%;  $\$200,000 \times 45\% = \$90,000$  reimbursable costs, which is less than the \$100,000 MRA.) Contract reimbursement will be limited to \$100,000 for contract A plus \$90,000 for contract B for a total of \$190,000: **this means that \$10,000 worth of expenses must be paid for from another funding source.**

Contractors with commingled contracts should closely monitor enrollment and expenses to avoid the situation given in Example 2. To be financially sound, programs with over-enrollment *must have other income and expenditures to cover the additional enrollment*. If in Example 2 the contractor had additional outside income of \$20,000 (to support the additional enrollment) and total expenditures of \$220,000, then both contract MRAs would be earned in full:

contract A:  $\$220,000 \times 54.5454\% = \$120,000$  costs, limited to the \$100,000 MRA;

contract B:  $\$220,000 \times 45.4545\% = \$100,000$  costs, equal to the \$100,000 MRA.

Alternatively, a Reserve Account *with a balance of \$10,000* would also help in this situation, because the prorated certified costs for contract A equal \$110,000 ( $\$200,000 \times 55\%$ ). If the contractor transferred \$10,000 of Reserve Account funds to contract A to cover the excess costs, it would reduce the net costs to \$100,000 and contract A would still earn its \$100,000 MRA because its service earnings would be greater (\$120,000). Income for the year, then, would be \$100,000 reimbursement for contract A, \$10,000 Reserve Account funds used for contract A, and \$90,000 reimbursement for contract B, for a total of \$200,000 income. Although Contract B still was reimbursed only \$90,000 due to the proration of costs, its service earnings are still the full contract MRA of \$100,000 so it would deposit in the Reserve Account its earned but unspent \$10,000 for use in a future year. Thus, the State funds used from the Reserve Account by Contract A are replaced by Contract B.

(See also "Limits of Reimbursement")

# FLEX FACTORS

The calculations that determine a contract's fiscal year earnings include a certain amount of flexibility. There are three types of "flex factors": for earnings projections, for attendance percentage, and for Minimum Days of Operation (MDO).

## FLEX for EARNINGS PROJECTIONS

Monthly apportionment amounts are derived from projected FY earnings. The flex factors applied to calculations artificially increase the projected FY earnings to allow for incomplete or inaccurate information on early reports. These flex factors decrease during the year as cumulative fiscal year data becomes more accurate. (See "Projecting Your Earnings")

## FLEX for ATTENDANCE PERCENTAGE

Contracts with a service requirement have as one of the limits to reimbursement their subsidized service earnings (adjusted certified enrollment multiplied by the contract rate) adjusted (reduced) for low attendance (attendance *includes* excused absences). However, contracts are allowed a 5% flex factor for attendance; i.e., service earnings are multiplied by *"the actual percentage of attendance plus five percent (5%), but in no case to exceed one hundred percent (100%) of enrollment"* (Title 5, Section 18054) to derive CDE earnings adjusted for attendance. Programs with at least 95% attendance will not be affected; only programs with less than 95% attendance will have service earnings reduced by a low attendance percentage.

**EXAMPLES:** A program with 96% attendance will be calculated at 100% of actual service-level earnings; a program with 94% attendance will be calculated at only 99% of actual service-level earnings, or a 1% reduction due to low attendance.

## FLEX for MINIMUM DAYS OF OPERATION (MDO)

Because MDO is a contract term, a program that fails to operate the minimum days during the contract period is in violation of the contract and faces a reduction in the contract Maximum Reimbursable Amount (MRA). However, the MRA will only be reduced if the program "fails to operate at least ninety eight percent (98%) of the minimum days of operation required in its contract, ceases operation or the contract is terminated prior to the end of the contract period" (Title 5, Section 18055). This allows a 2% flex factor for agencies that do operate at least 98% of their contract MDO; contractors have that small degree of flexibility within 98-100% in case they are short one or two days of operation.

**EXAMPLE:** A contract with an MDO of 250 days could operate 245 days, or 98% of its MDO, without having its MRA reduced due to low days of operation.

If days of operation are **below 98%, the contract MRA will be reduced accordingly.**

**EXAMPLE:** A contract with an MRA of \$100,000 that only operates 97% of its MDO will have its MRA reduced to \$97,000 (97% of the original MRA).

(See "Enrollment vs. Operation vs. Attendance" and "Non-Operating Days")

# CALCULATING FINAL EARNINGS

The form on the following page, CDFS-9503a, is an example of a Final Earnings calculation sheet. This is calculated at the end of the fiscal year to determine a contract's actual total reimbursement, and may result in a billing for over-advanced contract funds or an additional payment. Calculations are based on information from the June final Attendance and Fiscal Report, the Reserve Account Activity Report (for contractors having a Reserve Account), the contract terms, and the amount of State contract funds that have been advanced. The CDFS calculation sheet is computer generated, but this manual version follows the same format and shows the calculation steps that determine a contract's reimbursement. (NOTE: this manual worksheet is for most center-based program types such as General Center-based programs and State Preschool; other program types such as "Latchkey" and AP utilize different worksheets.)

**REMEMBER:** "Certified cde" (enrollment) data is for subsidized children *served by the contract being calculated*; children subsidized by another CDE contract (or funded by any other source, such as parent fees) are considered "non-certified" and included in "Total cde" for the program.

For an LEA, this final calculation will be used to close the contract. For all other contractors, this calculation may result in an additional payment prior to contract closure, but closure will be based on a review of the contractor's audit by the Audits and Investigations Division.

(See also "Revised Reports")

## RESERVE ACCOUNT CALCULATION

This manual calculation sheet does not provide the formula for line 24c (Transfer to Child Development Reserve account) because the complex formula varies with different contract types and may include factors not included on this generic work sheet. (See "Reserve Amount Calculations")

## BILLINGS

Final calculation and contract closure may result in a billing for over-advanced funds. These unearned contract funds should be available in the contractor's bank account, but if for some reason the contractor has spent these funds incorrectly **the contractor is responsible for replacing State funds** with its own non-State funds. Billings that are delinquent shall result in current CDE contract funds being withheld.

Please **do not** return any funds until after receiving the formal invoice from the CDE Accounting Office, as all payments must reference a CDE invoice number.

California Department of Education  
CHILD DEVELOPMENT FISCAL SERVICES  
CDFS9503a (Rev. 5/02)

GENERAL (INCLUDES START-UP)  
FINAL EARNINGS CALCULATION  
FISCAL YEAR: \_\_\_\_\_  
REPORT MONTH: \_\_\_\_\_  
CDFS ANALYST: \_\_\_\_\_

CONTRACT NO.: \_\_\_\_\_

PROJECT NO.: \_\_\_\_\_-\_\_\_\_\_-\_\_\_\_\_-\_\_\_\_\_-\_\_\_\_\_

AGENCY NAME: \_\_\_\_\_

DATE: \_\_\_\_\_

1. Total cost (includes Start-Up), from report	\$	_____
2. A. Restricted income (Program), from report	\$	_____
B. Transfer from Child Development Reserve Fund	\$	_____
3. Non-reimbursable cost, from report	\$	_____
4. Net cost (line 1 - (line 2A + line 3))	\$	_____
5. Administrative cost		
A. Reported	\$	_____
B. Maximum Allowable (line 4 x 15%)	\$	_____
C. Excess (line 5A - line 5B; if less than 0, use 0)	\$	_____
6. Adjusted net cost (line 4 - (line 5C + line 13A))	\$	_____
7. Adjusted Child Days of Enrollment (CDE)		
A. Certified CDE, from report		_____
B. Total CDE, from report		_____
C. Percent Certified (line 7A / line 7B)		_____ %
8. Net reimbursable cost ((line 7C x line 6) - line 2B + line 13A)	\$	_____
=====		
9. Actual Days of Operation, from report		_____
10. Minimum Days of Operation required (per contract)		_____ MDO
11. Days of Operation Adjusted (line 9 / line 10; 98% or more = 100%)		_____ %
12. Maximum Reimbursable Amount (per contract)	\$	_____ MRA
13. Start-Up cost		
A. Reported	\$	_____
B. Maximum Start-Up (per contract)	\$	_____ START-UP
C. Allowable (lesser of 13A or 13B)	\$	_____
14. Operational MRA (line 12 - line 13C)	\$	_____
15. Operational MRA adjusted for Days of Operation (line 11 x line 14)	\$	_____
16. Total Adjusted MRA (line 13C + line 15)	\$	_____
=====		
17. Contract Rate (per contract)	\$	_____ RATE
18. FY earnings by CDE (line 7A x line 17)	\$	_____
19. Attendance percentage (Attendance / Enrollment)		_____ %
20. Attendance flex. factor (line 19 + 5%; if more than 100%, then 100%)		_____ %
21. CDE earnings adjusted for attendance ((line 20 x line 18) + line 13C)	\$	_____
=====		
22. FY reimbursable costs (lesser of lines 8 or 21)	\$	_____
23. A. Subsidized Family Fees, from report	\$	_____
B. Interest Income, from report	\$	_____
C. Total Family Fees + Interest (line 23A + line 23B)	\$	_____
24. A. FY earnings (line 22 - line 23C)	\$	_____
B. FY reimbursable earnings (lesser of line 24A or line 16)	\$	_____
C. Transfer to Child Development Reserve	\$	_____
25. Apportionments to date	\$	_____
26. Unapportioned balance of reimbursable earnings due agency: ((line 24B + line 24C) - line 25)	\$	_____
27. Percent of Contract Earnings ((line 24B + line 24C) / line 12):		_____ %
=====		
28. Recommended billing amount:		
A. Total (line 25 - (line 24B + line 24C))	\$	_____
B. Apportionment above adj. MRA (line 25 - line 16)	\$	_____
C. Unearned reimbursement (line 28A - line 28B)	\$	_____
D. Interest billing (lesser of line 23B or line 28C)	\$	_____
E. Contract billing (line 28C - line 28D)	\$	_____

# CLOSURE NOTIFICATIONS

The following forms are used after the end of the contract period to inform contractors of actions taken to close Child Development contracts.

## PRELIMINARY BILLING ADVICE – CDFS 3700

This is a warning that, according to final FY earnings calculations based on the final Attendance and Fiscal Report, reimbursement determination indicates that contract funds have been over-advanced. LEA contractors will receive an invoice for the amount on the Preliminary Billing Advice unless a revised final report changes the reimbursement calculations. Private contractors will receive an invoice after a review of their audit by the Audits and Investigations Division (AID) confirms the amount to be billed. CalWORKs contracts will be billed immediately for the amount on the Preliminary Billing Advice, per the Budget Act, and possible adjustments may be made after receipt of a revised report or review of the audit.

## INVOICE for AMOUNT DUE to CDE

An invoice from the CDE Accounting Office will be sent for an amount due to the CDE, and contractors should wait until they receive the invoice before returning any funds because all payments must reference a CDE invoice number. Unearned contract funds should be available unused in the contractor's bank account. If a contractor has incorrectly spent unearned funds **the contractor is responsible for replacing State funds** with its own non-State funds. Invoices that are more than 90 days delinquent (120 days from the issue date) shall result in current CDE contract funds being withheld, per Title 5, Section 18056.

## LEA ACCOUNT CLOSURE NOTICE – CDFS 3704

Contract closure for an LEA is based on the June final earnings calculation. LEAs will receive an Account Closure Notice, which includes a final earnings calculation worksheet, informing the LEA that all reimbursement due the contractor has been or will be sent, and that the contract is closed. LEAs that receive an invoice from the Accounting Office for unearned funds due to the CDE may not receive this closure notice, as the invoice is also considered a closure notice.

**NOTE:** An LEA contract closure may be revised if an exception is found during a review of the Audits of California K-12 Local Educational Agencies.

## PRIVATE (NON-LEA) CLOSURE – AUDIT REVIEW LETTER – CDFS 3705

Private contractors may also receive an Account Closure Notice based on a June final report, but this will be *preliminary* information because contract closure is based on a review of the contractor's audit by the AID. After their audit has been reviewed by the AID,

private contractors will receive an Audit Review letter, including a final earnings calculation worksheet indicating the final reimbursement amount, which informs the contractor that there is an amount due the CDE (for which an invoice will be sent), or that there will be an additional payment from CDE, or that the contract is closed.

### **DEFERRED AUDIT LETTER – CDFS 3705D**

If a contractor's audit includes a contract that isn't due to be closed until the following fiscal year, the contractor may receive a Deferred Audit Letter, including an earnings calculation worksheet showing activity to date, for that contract.

### **RESERVE ACCOUNT STATUS REPORT – CDFS 9530**

A Reserve Account Status Report indicates the amount of contract funds held by the contractor to be deposited into the contractor's Reserve Account after closure of all contracts that may contribute to the account (see "Reserve Amount Calculations"). Contractors with more than one Reserve Account (for different account types) will receive a Status Report for each Reserve Account type. For Reserve Accounts with maximum limits, if the ending balance exceeds the limit the Status Report will indicate an "Excess reserve to be billed" and the contractor will receive an invoice from the Accounting Office.

**NOTE:** Contractors may receive a Reserve Account Status Report after calculations of their June final Attendance and Fiscal Reports and Reserve Account Activity Report, but this first Status Report is a ***preliminary*** report. Final Reserve Account calculations will not be made until all contracts are closed, which is after the deadline for revised reports for LEA contractors or after review of the audit for private contractors. When contracts are closed, contractors will be sent a Reserve Account Status Report with final balances.

Each Reserve Account Status Report (CDFS 9530) will have a cover letter, either a Reserve Fund Status Letter (CDFS 9530SL) or an audited Reserve Fund Status Letter (CDFS 9530ASL) if based on audited data.

# CalWORKs REPORTING

Because of the fluctuating nature of CalWORKs funding needs, the CDE has initiated different reporting requirements for CalWORKs contracts.

## REPORTS REQUIRED

On a monthly basis all CalWORKs contractors must submit:

- a) a CalWORKs Fiscal Report for **each** CalWORKs contract; and
- b) a CalWORKs Caseload Report for each county in which the contractor provides services.

The CalWORKs Fiscal Report is essentially the same as the CDFS 9500-AP fiscal report, which provides year-to-date accrued revenue and expenditure data. The CalWORKs Caseload Report provides service and expenditure data for the report period. Both reports are used by CDFS to estimate future funding needs.

## INTERNET SUBMISSION

CalWORKs reports must be submitted electronically via the Internet at the CDE website:

**[www2.cde.ca.gov/cdfs/logon.asp](http://www2.cde.ca.gov/cdfs/logon.asp)**

The report deadline is the 20th of each month, unless the 20th falls on a weekend or State holiday in which case submission is due on the next State working day. Reports not *submitted **and** certified* by the due date are considered delinquent and contract reimbursement may be delayed.

## REVISED REPORTS

If needed, contractors may submit revised fiscal and/or caseload reports during the current contract period. While it remains the contractor's responsibility to determine which reports need to be re-submitted, contractors are advised to contact their assigned CDFS fiscal analyst prior to doing so. In many instances, corrections to fiscal report data can be accomplished by revising the "Column A Cumulative Prior Period" of subsequent reports, thereby eliminating the need to file a revised report.

## ACCRUAL vs. CASH ACCOUNTING

Title 5, Section 18063 requires that *"Contractors shall report expenditures on an accrual basis."* Accruals show costs for services that have occurred but have not yet been paid. It is imperative that CalWORKs contractors use the accrual method because CDFS uses CalWORKs year-to-date report data to adjust MRA amounts periodically during the contract period.

**EXAMPLE:** You are preparing the fiscal report for the month of March to be filed April 20th. A child care provider has failed to submit the required paperwork by your agency's deadline and thus has not been paid for providing child care in the month of March. Although a payment has yet to be remitted to this provider, your total "Direct Payments to Providers" amount on the fiscal report must *include* the expected payment so that your report reflects an accurate picture of your agency's accrued expenses.



# CalWORKs REIMBURSEMENTS

The reimbursement system for CalWORKs contracts differs from other Child Development contracts.

## INITIAL ADVANCE

CalWORKs contractors receive an initial fiscal year advance of 25% of the MRA after the contract is executed.

## MONTHLY REIMBURSEMENTS

CalWORKs monthly reimbursements are based on accrued expenditures and revenue reported on the monthly CalWORKs Fiscal Reports, and are limited by the contract MRA and year-to-date payments (including the 25% advance).

**NOTE** that there is approximately a two-month gap between the end of the reporting period and the receipt of reimbursement.

**EXAMPLE:** The August report is submitted by September 20, calculated by CDFS to determine the August reimbursement, and checks should be processed and mailed by the Controller's Office in October.

## FINAL FY REIMBURSEMENTS AND BILLINGS

Final fiscal year earnings are calculated by CDFS based on June final Fiscal Report data, and could result in a final reimbursement or a billing for unearned funds.

The CDE is required by the Budget Act to bill both LEA and private contractors for unearned CalWORKs funds prior to audit completion based on June final report earnings calculations. Contractors will receive a Preliminary Billing Advice from CDFS prior to receiving an invoice from the CDE Accounting Office. Contractors must wait until they receive the actual invoice before making any payments.

**NOTE:** Any invoice more than 90 days delinquent (unpaid more than 120 days after the issue date) shall result in the withholding of all payments to a contractor (Title 5, Section 18056).

Contract closure for an LEA is based on the June final report earnings calculation. Contract closure for a private contractor is based on a review of the contractor's audit by the Audit and Investigations Division. If the result of the audit review differs from the result of the June final report earnings calculation, an additional reimbursement or billing will be sent.

(See "Limits of Reimbursement: Alternative Payment and Family Child Care Homes")

# CalWORKs MRA ADJUSTMENTS

Since the need for Stage 2 and Stage 3 funding fluctuates, the CDE must be able to adjust CalWORKs contract amounts during the course of the contract period *"to ensure funds are distributed proportional to need"* (Budget Act). CDFS accomplishes this by reviewing reported fiscal and caseload data periodically during the contract period to determine fiscal year estimated need. This review may result in either an augmentation or a reduction to the contract MRA(s). Since these reviews may be done more than once, it is possible for a contract to be reduced at one time and augmented at another due to a subsequent change in caseload data, fiscal data or available funding.

Contract amendments will be sent to contractors for all CalWORKs MRA adjustments. As with any contract amendment, **both** copies must be signed and returned to the Contracts Office as soon as possible so that it can be executed.

## AUGMENTATIONS

If the calculated FY estimated need indicates an amount higher than the contract MRA, CDFS will augment the MRA *provided there is available funding*. Contractors will receive notification from CDFS of the augmentation amount, followed by a contract amendment from the Contracts Office increasing the MRA. Contractors receiving an MRA augmentation should sign and return the amendment immediately so that it can be executed while the funds are available. **Until the amendment is executed the current MRA remains in effect.**

## REDUCTIONS

If the calculated FY estimated need indicates an amount less than the contract MRA, *"the CDE may immediately reduce the contract"* (FT&C). Contractors will receive notification from CDFS of any proposed reduction.

**NOTE:** Because of the need to redirect funds as quickly as possible, and in order to avoid overpayments and subsequent billings, CDFS will calculate payments using the reduced MRA **as soon as it is initiated**. Contractors will also receive a contract amendment from the Contracts Office.

(See "CalWORKs Reporting")

# RESERVE ACCOUNT BASICS

Reserve Account funds are **not contract reimbursement** and ***do not belong to the contractor***, Reserve Account funds **are State funds** that the contractor **holds in reserve** until they are either properly spent or returned to the CDE. Contractors who *do not spend* all of their contract funds are allowed to maintain a Reserve Account from *"earned but unexpended"* funds (Education Code Section 8450).

To establish a Reserve Account a contractor must file a letter of intent (form CDFS9530-LTR) with CDFS. Once established, the Reserve Account must be maintained until the contractor decides to close it or until termination of the contractor's child development contract(s). Since there are three Reserve Account types (Center-based, Alternative Payment and Resource & Referral) a contractor could have up to three Reserve Accounts, and each account must be maintained separately due to different maximum limits and use requirements. A contractor with multiple contracts will have all contracts of the same **type** contribute to the same Reserve Account. Expenditures from a Reserve Account are restricted income for child development programs, but may be made to any of the contracts *that are eligible to contribute to that particular Reserve Account*. (See also "Reserve Amount Calculations")

**EXAMPLE:** A contractor has two center-based contracts, a "Latchkey" and a State Preschool, and has established a Center-based Reserve Account. The contractor is able to reserve some of its "Latchkey" contract funds. Once deposited in the Reserve Account the funds lose their contract identity. Center-based Reserve Account funds may be transferred the following year as restricted income to either the "Latchkey" or the Preschool program.

## RESERVE ACCOUNT REQUIREMENTS

- > Reserves are not required, but *"contractors are encouraged to develop and maintain a reserve."*
- > Reserve Account amounts may be spent only on *"reasonable and necessary costs."*
- > The Reserve Account amounts must be kept *"in an interest-bearing account"* within the contractor's Child Development Fund.
- > *"Interest earned on reserve funds shall be included in the fund balance."*
- > Expenditures, income and balances of the Reserve Account *"shall be included in the agency's annual financial statements and audit."*
- > Balances in excess of the maximum limits for AP and R&R type Reserve Accounts *"shall be returned to the State Department of Education."*
- > Upon closure of the Reserve Account, or termination of child development contracts, *"all moneys in a contractor's reserve fund shall be returned"* to the Department of Education.

(Education Code Section 8450)

## REPORTING REQUIREMENTS

All contractors with a Reserve Account are required to submit an annual Reserve Account

Activity Report, *regardless of any activity in the account*. Additionally, expenditures from a Reserve Account to a contract must be reported in two places: as income on the Attendance and Fiscal report of the contract receiving the funds, and as a corresponding expense on the Reserve Account Activity Report indicating the contract number to which the funds were transferred. Contractors required to submit an audit must also include this data in their audit.

**Attendance and Fiscal Report:**

Money transferred from a Reserve Account is restricted income, and must be reported in the "REVENUE" section of the receiving program's Attendance and Fiscal report on the "TRANSFER FROM RESERVE FUND" line. (All program expenses, of course, must be reported in the "EXPENSES" section.)

**Reserve Account Activity Report:**

A "Reserve Account Activity Report" (CDFS9530-A) for **each** Reserve Account that a contractor has must be submitted to CDFS annually at the same time as the final Attendance and Fiscal Report(s): the **deadline** for the Activity Report is **July 20**, and *a delinquent report will result in withholding current apportionments*. These Activity Reports show the beginning reserve balance, interest revenue (income to the Reserve Account), transfers to contracts (expenditures from the Reserve Account), and ending balance. Activity Report data must be compiled by CDFS prior to an analysis of the final Attendance and Fiscal Report(s) in order to calculate final contract reimbursements.

**Audit:**

Data from the Attendance and Fiscal Report(s) as well as data from the Reserve Account Activity Report(s) must be included in a contractor's audit.

# RESERVE ACCOUNT USAGE

General information regarding the use of Reserve Account funds:

- Reserve Account funds **cannot** be used in the same fiscal year in which they are earned. At the time of contract closure, a Reserve Account Status Report will indicate the amount of contract funds to be deposited in the Reserve Account for use in some subsequent year.
- Reserve Account funds can only be transferred to the same type of contract as the account, either Center-based, Alternative Payment, or Resource & Referral.
- Reserve Account funds can only be used for **reimbursable** program expenses for **certified children** that exceed a contract's FY reimbursement (the lesser of service earnings or the MRA). Any **non-reimbursable** program costs must be covered by non-State income.

**EXAMPLES:** in both the following center-based examples, if the Reserve Account balance is at least \$10,000 then all of the *reimbursable program expenses* can be covered:

- A.** Total costs: \$125,000 – includes \$15,000 **NON-reimbursable** costs  
Reimbursable costs: **\$110,000** – total *reimbursable program expenses*  
Service earnings: \$105,000  
Contract MRA: \$100,000 – limit of contract reimbursement.
- B.** Total costs: \$105,000 – includes \$15,000 **NON-reimbursable** costs  
Contract MRA: \$100,000  
Reimbursable costs: **\$ 90,000** – total *reimbursable program expenses*  
Service earnings: \$ 80,000 – limit of contract reimbursement.

**NOTE:** if reimbursable costs are less than **both** the MRA and service earnings, then there is no need to transfer funds from the Reserve Account because the costs will be covered by the current contract reimbursement. Reserve Account funds transferred in such a situation will simply result in an equal amount of current contract funds being re-deposited into the reserve.

## RESERVE ACCOUNT FUNDS SUPPORT CERTIFIED CHILDREN

Because center-based Reserve Account funds result from services to *certified* children, they must be spent on reimbursable costs for *certified* children. And since services are equitable among certified and non-certified children, a program that includes both certified and non-certified children may need additional non-State income to cover expenses in order to utilize Reserve Account funds.

**EXAMPLE 1:** A center-based contractor wants to spend \$10,000 on building improvements to the center. However, 50% of the program is non-certified, so only half of those improvement expenses can be reimbursed by State funds. The contractor may use \$5,000 of Reserve Account funds for the certified portion of the project.

**EXAMPLE 2:** A center-based contractor has an MRA of \$100,000 and usually operates a \$200,000 program that is 50% certified. However, one year the amount of certified services and expenses exceed the minimum required to earn the MRA: enrollment is 55% certified and total program costs are \$225,000, but the contractor has a Reserve Account balance of \$25,000. The proration for the certified portion of the program is \$123,750, so \$23,750 of Reserve Account funds could supplement the \$100,000 contract funds, but the remaining \$101,250 expenses must be paid for with non-State income.

# RESERVE ACCOUNT – CALCULATIONS & BALANCES

Reserve amounts from contract funds are calculated and authorized by the CDE. CDFS will calculate these amounts only at the end of the contract period. Upon receipt of the final Attendance and Fiscal Report(s) and the Reserve Account Activity Report, *preliminary* reserve amounts will be calculated by CDFS for each contract contributing to a reserve, according to the contract's FY reimbursable earnings and the Reserve Account's maximum limit. Contractors will be notified of these preliminary amounts via a "Reserve Account Status Report". For LEAs, this may be the final notification, provided there are no final report amendments or recalculations. For non-LEAs, a final status report will be sent at contract closure following review of the contractor's audit. If the final reserve balance exceeds the maximum allowable limit, the contractor will be billed for the excess. (See also "Reserve Account Basics" and "Reserve Account Status Report")

## CALCULATIONS

Calculating Reserve Account amounts per contract is a complex procedure, and CDE does not expect contractors or their CPAs to be able to accurately calculate amounts due to the number of unknown variables, including actual enrollment and cost data which may not be finally determined until review of the contractor's audit. Reserve Account amounts can be *estimated*, but CDFS cautions contractors to do this only if they need to set up a *potential* accounts receivable or accounts payable on their books. Basically, the amount a contract may have to reserve is its reimbursable earnings minus its reimbursable costs, within its MRA, that does not exceed the Reserve Account maximum limit. Reserve Accounts for Alternative Payment (AP) contracts and for Resource & Referral (R&R) contracts are restricted by maximum limits (Education Code Section 8450). An AP Reserve Account balance may not exceed two percent of the sum of the amounts allowed for administrative and supportive services, or \$1,000, whichever is greater. An R&R Reserve Account balance may not exceed three percent of the contract amount. For an AP or an R&R Reserve Account with multiple contracts eligible to contribute, the contracts are assigned a priority order for calculating final reimbursement so that the Reserve Account maximum limit is not exceeded. Finally, some contract types are not eligible to contribute to a Reserve Account.

## DEPOSITS TO A RESERVE ACCOUNT

At contract closure, the final Reserve Account Status Report will indicate the amount of State contract funds to be deposited in the Reserve Account, and if contract funds have been advanced they should be available in the contractor's bank account. If a contractor has already spent advanced contract funds incorrectly, **the contractor is responsible for replacing State funds** with its own non-State funds for deposit in the Reserve Account. CDFS recommends that contractors wait until after contracts are closed before posting final amounts to their Reserve Account.

## RESERVE ACCOUNT BALANCE

The annual final (i.e., not preliminary) "Reserve Account Status Report" shows the correct balance of State funds in the Reserve Account. If that amount is not in the account the funds are either in the wrong account and simply need to be transferred to the Reserve Account, or the funds have been spent incorrectly in which case **the contractor is responsible for replacing Reserve Account funds** with its own non-State funds. The Status Report may also indicate an "Excess reserve to be billed" for a balance that exceeds the Reserve Account limit, and the contractor will receive an invoice from the CDE Accounting Office for the recovery of those State funds.

# RESERVE ACCOUNT STATUS REPORT

CALIFORNIA DEPARTMENT OF EDUCATION  
RESERVE ACCOUNT STATUS REPORT  
CDFS 9530 (Rev 6/99)

DATE: 02/29/05  
CDFS ANALYST: Steev Schmidt  
Telephone: (916) 555-1212

59-X999-00  
SAMPLE CHILD CARE AGENCY  
street address  
city, CA zip

Report Year: 2003/04  
County No: 59  
Vendor Code: X999

Program Category: Center Base

## SECTION I – BEGINNING BALANCE

## SECTION II – INTEREST

Contract No. SECTION III – TRANSFER FROM RESERVE

GCTR3777

\$1,000

GPRE3888

\$0

GLT

Example of a RESERVE ACCOUNT STATUS REPORT;  
PLEASE NOTE the following:

GMI

- *Report Year* is the fiscal year of closure for all contracts listed for this Reserve Account.

GMS

- *Beginning Balance* is the ending balance from the prior fiscal year (in this case, FY2002/03).
- *Interest* is the interest revenue earned on reserved funds (Beginning Balance) during the report year.
- *Transfer From Reserve* (Expenses) must match the "Transfer From Reserve Account" (Income) amounts on each contract's Attendance and Fiscal Report.
- *Transfer To Reserve* results from final calculations determining contract reimbursement and unused funds available to reserve.
- *Ending Balance* is the amount available for use during the following fiscal year (in this case, FY2004/05).

SECTION IV – TRANSFER TO RESERVE

\$10,000

\$450

\$0

\$0

\$0

## SECTION V – ENDING BALANCE

(Section I + Section II) – Section III + Section IV

\$9,950

Excess reserve to be Billed: \$0

CDFS ANALYST: \_\_\_\_\_

# REMITTANCE ADVICE

Funds are sent to an agency via a warrant (check) from the State Controller's Office. Each warrant is accompanied by a "Remittance Advice" slip that gives important information identifying the funds. Since an agency may receive funds for more than one contract, or from various State offices, it is necessary to be able to interpret the Remittance Advice to properly account for the funds received. A Remittance Advice for Child Development contract funds usually has the following "invoice" information:

- 1) the **date** of the warrant;
- 2) the five-digit Project Cost Account (**PCA**) number, this identifies the fund source for the CDE's Accounting Office. CDE contracts that are funded from multiple sources will have multiple PCAs that may be listed separately;
- 3) the series of eight alpha/numeric characters that is the **contract number** (see the face sheet of your contract). The first four characters (usually alpha) designate the fund source and program type. The second four characters (numeric) designate the fiscal year and sequence number: the first numeral indicates the fiscal year (the last digit of the first half of the fiscal year, e.g., FY 2004/05 would be a "4") and the last three numerals indicate the program sequence number (see also "Contract Numbers");

and on the next line

- 4) the **amount** for that particular contract.

The following sample illustrates the information on a Remittance Advice:

PROJECT COST ACCOUNT (PCA)				AMOUNT		CONTRACT NUMBER	
<b>REMITTANCE ADVICE</b>		VENDOR-ID 000000A000-00		PAGE 1		STATE OF CALIFORNIA	
STD. 404C (REV 4-95)		THE ENCLOSED WARRANT IS IN PAYMENT OF THE INVOICES SHOWN BELOW.					
DEPARTMENT NAME DEPARTMENT OF EDUCATION		ORG. CODE 6100		INVOICE DATE RPI	INVOICE NUMBER	INVOICE AMOUNT	
DEPARTMENT ADDRESS 721 CAPITOL MALL SACRAMENTO CA 95814		CLAIM SCHED. NO. 0000000		03/09/05	23254	GCTR4123 4567.00	
VENDOR SAMPLE CHILD CARE CENTER Street address City, CA zip code				03/09/05	23038	GPPE4007 2000.00	
FEDERAL TAX ID NO. OR SSAN	RP TYPE	TAX YEAR	TOTAL REPORTED TO IRS .00	TOTAL PAYMENT		6567.00	



# **SACS CODES**

School Districts and County Offices of Education account for revenue and expenditures utilizing the Standardized Account Code Structure (SACS). SACS codes may be found on the face sheet of Child Development contracts. The Remittance Advice that accompanies a State check may also show reimbursement amounts by SACS codes. However, CDFS does not use SACS codes, and SACS codes are **not** required on CDFS Attendance and Fiscal Reports or Reserve Account Activity Reports.

## **RESERVE ACCOUNT SACS CODES**

Contractors with a Reserve Account should note that the SACS codes for Reserve Accounts are different from the SACS codes for the Child Development contracts from which reserved funds originate.

## **WEBSITE INFORMATION**

Contractors recording funds by SACS codes should refer to the SACS information on the CDE web site at:

[www.cde.ca.gov/fg/ac/ac](http://www.cde.ca.gov/fg/ac/ac)

# GLOSSARY OF CHILD DEVELOPMENT TERMS and ACRONYMS

AP (APP) .....	Alternative Payment (Alternative Payment Program)
apportionment.....	allotment of contract funds
CalWORKs .. .....	California Work Opportunity and Responsibility to Kids
CCDF .....	Child Care and Development Fund (Federal)
CDD.. .....	Child Development Division
CDE.. .....	California Department of Education
cde.... .....	Child Days of Enrollment
CDFS .....	Child Development Fiscal Services
certified.....	eligible to be subsidized by CDE (see subsidized)
che.... .....	Child Hours of Enrollment
FASD .....	Fiscal & Administrative Services Division
FT&C .....	Funding Terms and Conditions
FTE... .....	Full-Time Equivalent
FY .....	Fiscal Year
"Latchkey".....	School Age Community Child Care Services
LEA... .....	Local Educational Agency
MDO . .....	Minimum Days of Operation
MRA . .....	Maximum Reimbursable Amount
noncertified.. .....	not subsidized by the contractor's CDE contract
private.....	contracting agency other than an LEA
subsidized....	funded by a CDE Child Development contract (see certified)
TANF .....	Temporary Assistance to Needy Families